DAYTON HUDSON CORPORATION

ANNUAL REPORT

1984 HIGHLIGHTS

- Revenues increase 15% to top $8 billion.
- Comparable-store revenues up 9%.
- Earnings per share $2.68, up from $2.54 in 1983.
- Strong operating profit growth at Target and Mervyn's.
- Quarterly dividend increased to 18½ cents per share — 13th consecutive annual increase.
- Total stores at year-end number 1,136.
- Department store operations strategically repositioned.
- Dayton Hudson Foundation community giving budget totaled $16.7 million.
- Plans announced to invest $3.2 billion in expansion over the 1985-1989 period.
- Dayton Hudson receives University of Southern California's Vanguard Award naming the Corporation the best-managed company in America.

CORPORATE PROFILE

Dayton Hudson Corporation is a growth company focusing exclusively on retailing. At fiscal year-end, the Corporaton was operating 1,136 stores in 48 states, the District of Columbia and Puerto Rico.

Dayton Hudson's principal operating strategy is to provide exceptional value to the American consumer through multiple retail formats. Retail operations are conducted by five companies, which are organized into four separate business segments:

Target
Target is an upscale discount store chain operating in 22 states. Target offers low prices on a broad assortment of high-quality fashion and basic hardlines and softgoods in easy-to-shop self-service stores.

Mervyn's
Mervyn's is a highly promotional, popular-priced, value-oriented department store company operating in nine states. Mervyn's stores feature nationally branded and private-label apparel, accessories and household softgoods.

Dayton Hudson Department Store Company
The Dayton Hudson Department Store Company emphasizes fashion leadership, quality merchandise, broad selections and customer service. It operates Hudson's and Dayton's stores in seven states.

Specialty Merchandisers
Specialty merchandising operations are conducted by two multi-store companies: B. Dalton Bookseller, a national bookstore chain, and Lechmere, a New England hardlines retailer.

For a complete listing of store locations for each company, see page 34.

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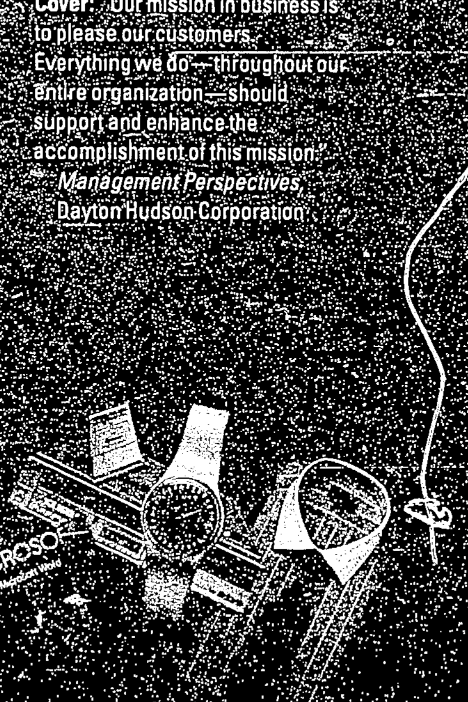
Management Perspectives,
Dayton Hudson Corporation



TRENDS FOR '85

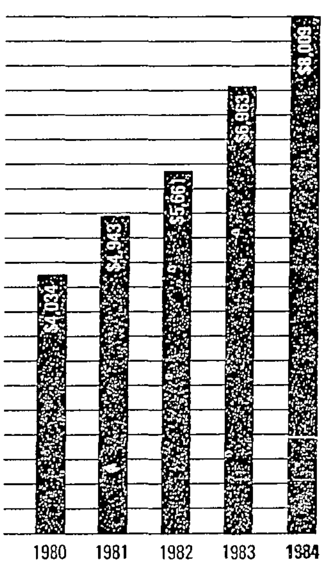
The product photographs in the business segment review of operations on pages 6–14 feature examples of what we believe will be key merchandise trends during 1985.

FINANCIAL HIGHLIGHTS

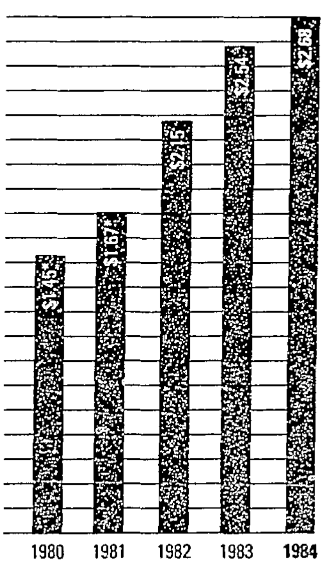
	1984 53 Weeks Ended February 2, 1985	1983 52 Weeks Ended January 28, 1984	Percent Increase
For The Year:			
Revenues	**$8,009.0**	$6,963.3	15%
Earnings before income taxes	**479.3**	450.7	6
Income taxes	**220.0**	205.2	7
Net earnings	**259.3**	245.5	6
Net earnings per share	**2.68**	2.54	6
Cash dividend paid per share	**.67¼**	.61¼	10
At Year-End:			
Shares outstanding	**96,991,626**	96,793,152	
Number of shareholders	**15,898**	14,620	
Retail square feet	**42,514,000**	41,964,000	
Number of stores	**1,136**	1,075	

All dollars in millions, except per-share data.
Results for 1983 have been reclassified to reflect the combination of discontinued operations with the Corporation's retail business.

Revenues (Billions)

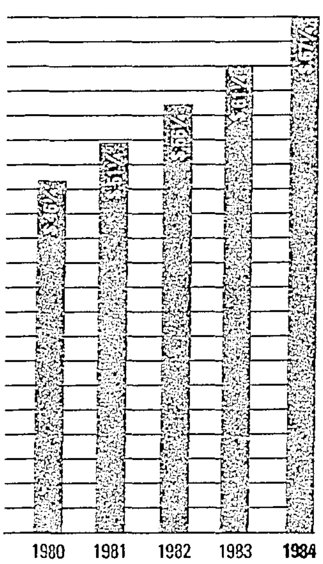


Net Earnings Per Share

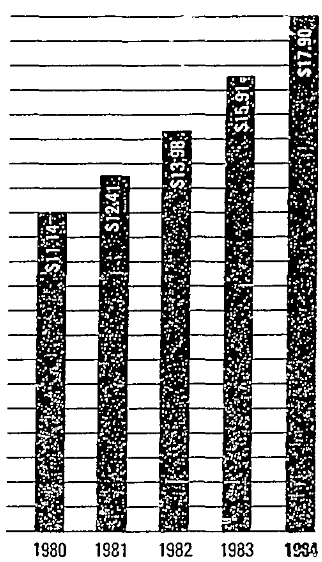


*Continuing operations

Cash Dividend Paid Per Share



Shareholders' Investment Per Share



Left to right: Kenneth A. Macke, Chairman of the Board and Chief Executive Officer; Boake A. Sells, President; Gerald R. Gallagher, Vice Chairman and Chief Administrative Officer.

TO OUR SHAREHOLDERS:

For Dayton Hudson Corporation, the year 1984 was again one of improved performance and continued growth.

Revenues increased 15% to top the $8-billion mark. Comparable-store revenues—from stores open longer than 12 months—rose 9% over last year.

Net earnings were $259.3 million, an increase of 6% over net earnings of $245.5 million in 1983. Net earnings per share were $2.68, up from $2.54 last year.

Total operating profit rose 8% on the strength of superior performance by Target and Mervyn's. Both companies reported strong improvement even though the retail environment was highly promotional throughout the year. (Operating profit is LIFO earnings from operations before corporate and interest expense, unusual expenses and income taxes.)

Department store operating profit was down substantially from a year ago, due to lower gross margins resulting from the promotional environment and merchandise consolidation at the Dayton Hudson Department Store Company. The specialty merchandising segment reported a slight decline in operating profit.

Despite the strong contribution of Target and Mervyn's, we did not meet our 15% earnings growth objective in 1984. In addition to lower department store operating profit, our earnings were also reduced by unusual expenses of 9 cents per share resulting from the repositioning of department store operations.

The unusual expenses are the result of the combination of Dayton's and Hudson's to form the Dayton Hudson Department Store Company and the costs associated with the sale of Diamond's and John A. Brown.

These strategic changes are part of our long-range plan. We consider the costs a necessary investment to position our department store business for the future.

Capital Investment and Expansion

In 1984, our total capital investment, including capital expenditures and the present value of operating leases, was $397 million. That compares with a capital investment of $377 million in 1983.

We added 10 Target stores, 17 Mervyn's stores and 52 specialty merchandising stores during the year. Retail space at fiscal year-end totaled 42.5 million square feet.

Expansion plans for 1985 anticipate a total capital investment of more than $500 million. Scheduled openings include 13 Target stores, 21 Mervyn's stores, approximately 60 specialty merchandising stores and one department store. We also will open stores within our test strategies, Pickwick Discount Books and RG. Branden's.

For the 1985-1989 period, our expansion plans call for a capital investment of $3.2 billion. Approximately 80% of that amount will go to Mervyn's and Target. Together, they plan to add more than 200 stores over the five-year period. B. Dalton Bookseller and Lechmere also will invest capital to open new stores.

Financial Position

Our financial position remained very strong throughout 1984.

Our year-end ratio of balance sheet debt to total capitalization was 29%, compared with 32% at the end of 1983. Including the present value of all operating leases, the ratio was 38%, compared with 41% a year ago.

We expect to fund the majority of our 1985-1989 capital investment program from internal sources. Our plans also call for the addition of between $100 million and $200 million of long-term debt in each of the next five years.

Despite this additional debt, we expect our ratio of debt to total capitalization to remain well within the range we believe is necessary to ensure a strong and conservative financial position.

Management Changes

Boake A. Sells was named President of Dayton Hudson in July. He succeeds Kenneth A. Macke, who was named Chairman of the Board. Mr. Macke remains Chief Executive Officer, a position he has held since 1983.

Mr. Sells also was elected to the Board of Directors. He joined Dayton Hudson in 1983 as Vice Chairman. He oversees the operations of Target, B. Dalton and Lechmere. He also is responsible for new specialty strategy development.

Gerald R. Gallagher was elected Vice Chairman and Chief Administrative Officer and a Director of Dayton Hudson effective February 1, 1985. Mr. Gallagher joined Dayton Hudson in 1977. In 1979, he moved to Mervyn's where he was appointed Vice Chairman in 1981.

Mr. Gallagher succeeds Richard L. Schall, who retired from the Corporation and the Board of Directors after more than 12 years of service. We are indebted to Mr. Schall for his many contributions, particularly the development of our corporate staff and the evolution of our strategic planning process.

William A. Andres, former Chairman of the Board and Chief Executive Officer of Dayton Hudson, announced that he will retire from the Corporation in August. He will continue to serve as Chairman of the Executive Committee of the Board of Directors until his retirement.

William H. Spoor, who has provided distinguished service as a Director since 1973, will have served as a non-employee director for 12 years in 1985, and in accordance with Board policy will not be a nominee for re-election this year. Alva O. Way, who has provided distinguished service as a Director since 1981, has had a change in principal employment, and in conformance with Board policy also will not stand for re-election this year. We deeply appreciate the contributions each has made to Dayton Hudson.

The Outlook

The moderating trend in consumer spending that began in mid-1984 is expected to continue throughout 1985. At the same time, the general retail environment will remain highly competitive.

We are planning conservatively in response to slower sales growth and competitive pressures on margins. We will concentrate on keeping our expenses under control while increasing sales and improving market share.

Above all, we will continue our efforts to serve our customers better—better than the competition and even better than we have in the past. Our customers are telling us that they are interested in fashion, quality and value. We intend to continue to focus strongly on these areas in 1985.

Over the longer term, we anticipate no major changes in our strategic direction. We believe our strategy continues to be sound and will remain a good guide for our future growth.

Kenneth A. Macke
Chairman of the Board
and Chief Executive Officer

Boake A. Sells
President

April 3, 1985

Above: Mr. Macke with Jane Hanzalik, manager of Target store, Eden Prairie, Minnesota.

"There is no better way to stay close to the customer than to go to the point where the retail process ends—on the selling floors of our stores."

Dayton Hudson Corporation enters the last half of the 1980s with a new senior management team—the result of a transition that has been carefully planned and implemented over the last several years.

Heading that team is Kenneth A. Macke, Chairman of the Board and Chief Executive Officer. Mr. Macke brings 25 years of retail experience with Dayton Hudson to his position as CEO of the country's fifth largest general merchandise retailer.

Mr. Macke began his career as a merchandise trainee at Dayton's department store in 1961. He joined Target in 1973 and was named Chief Executive Officer there in 1976. In 1981, he was elected President of Dayton Hudson. He has been Chief Executive Officer of the Corporation since 1983.

In the following excerpts from a recent interview, Mr. Macke discusses a wide range of topics, including Dayton Hudson's commitment to the customer, change in the retail business and the importance of people to the continuing success of Dayton Hudson.

On Staying Close to the Customer. "There is no better way to stay close to the customer than to go to the point where the retail process ends—on the selling floors of our stores. Everything we do—planning, buying, advertising—comes together there.

"The store is very much like the end of a production line in a factory. We can go there and see exactly how successful our product is.

"When I visit stores—ours or the competition's—I try to look at everything from the customer's viewpoint. If we really want to be the customer's purchasing agent, then everything we do has to be in the best interests of our customers. And the best way to ensure this is to continually play the role of the customer.

"You have to do a lot of looking and listening when you visit stores. You have to watch customers. You have to talk to management people— but you also have to make it a point to talk with those who have the last contact with the customer: the cashiers at Target, the sales personnel at Mervyn's, B. Dalton or our department stores... in Lechmere's case, the people at the pickup desk. Generally, it's the people at the end of the production line who really know what our customers are thinking.

"Whenever I'm out in our stores, I'm always pleased to find that we are consistently doing so much more right than wrong. Our companies are delivering to the customer exactly what they say they are—and that's why they are so successful."

On the Importance of People. "If the retail process *ends* with the customer's needs being fulfilled, then it *begins* with our people. You can say it starts with strategy, but you can't have a strategy unless you have the people to put it together.

"Our people are important to our future. In fact, they *are* the future. That's why we're working very hard on developing what we call employee partnerships—a process for instilling in each employee a sense of participation. We still have a long way to go—but we've made a commitment and we're going to keep working at it. We intend to be a premier company in whatever we do. That applies to employee partnerships as well.

"The most important thing I can do as CEO is to get our people to think about how they can do things better. My job is to create an environment that helps them to think.

"We were very fortunate to receive the University of Southern California's Vanguard Award in 1984, which named Dayton Hudson the best-managed company in America. I'm very proud of that award. Yet I can't help but think how easy it is to manage an organization when you've got over 115,000 top-flight people backing you up."

On the Changing Retail Customer. "We think the customer of the future is going to continue to be less loyal to any one retailer. They'll continue to ask the question, 'What have you done for me today?' Their loyalty will have to be earned. We simply will have to do a better job of serving their needs than anyone else.

"The demands on their time will increase as more and more couples are working. We'd better be efficient, convenient and in stock or they'll find someone else who is.

"Today's customers have more retailers and more products to choose from than ever before. As a result, they're more confident shoppers. They know that if we can't do the job for them, another retailer can.

"The burden is clearly on us. It's not like it was years ago when you had one store where you shopped for certain merchandise. Today you can buy the same goods in any number of stores. We have to be in stock in greater depth, present our merchandise better and provide better service—or we're not going to be the customer's first choice.

"The concept of customer service will have to be much more clearly defined in the future. Customers are beginning to look for different types of service for different types of products. We have to be able to determine what levels and degrees of service are appropriate to each category and then respond with the right strategies.

"For a long time, we said service was a salesperson. But today, if you're going to buy a toaster, I doubt whether you need a salesperson. Our customers are confident enough to buy a toaster on their own. So service—in this case—might be defined as a large selection to pick from in a convenient environment."

On Merchandising Trends. "As the purchasing agent for our customers, we have to anticipate what it is they want. All of our operating companies have different ways to do this. There is no one best way. But they all use the time-tested principles of trend merchandising as their primary management tool.

"Fortunately, I don't have to pick the trends. I'm blessed with the best group of merchants in the retail business. They're the ones who really listen most closely to our customers.

"You know you've got a trend when you see customers buying regular spring merchandise in very cold weather—as they were last December when they were buying tropical prints. Today we have a lot of prints in our stores and it's big business for spring. That's clearly the result of listening closely to our customers.

"Retailers are merchants 24 hours a day. Even though I'm away from day-to-day merchandising, I'm still continually trying to spot something around me that might signal a trend. I read a great deal—weekly news and business publications, daily newspapers, general interest magazines. I also go to a lot of movies—and when I can't, I read the reviews. Films are a great indicator of where trends in this country are headed. For example, one could see the whole neon look coming by watching today's movies very closely."

On New Business Strategies. "The first thing we do when we consider any new business opportunity is to ask ourselves two questions: 'Can we do this better for the customer than someone else?' and 'Is this a customer need that no one is fulfilling?' The next thing we do is determine if we have the people to make it work. Then we ask the right financial questions.

"RG. Branden's illustrates our approach to new strategy development very well. This home furnishings test strategy opened its first store in Miami recently. It's our response to what we believe is a very real customer need—a strategy that delivers value, quality, fashion and dominant assortments in the rapidly growing home furnishings category."

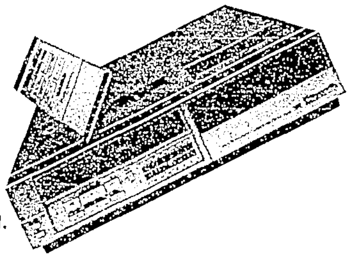
On the Future and Dayton Hudson. "We don't envision any major changes in Dayton Hudson's strategy in the coming years. We will continue to monitor closely what our customers want. We will remain committed to being a premier growth company.

"We expect to grow our business by increasing our share of market and improving the productivity of our existing stores. We intend to keep the stores we now operate current and fresh, while at the same time building new stores.

"We'll continue to have operating decisions made at the operating company level. That's clearly been a major reason for our success. We have a diverse group of strategies and we don't impose the corporate way of doing things on any of them.

"We will also continue to work hard at developing our employee partnerships in order to maintain the very strong base of people we have throughout our entire organization."

The *Honors* Collection—Target's response to the customer's increasing demand for quality and fashion at a value price.



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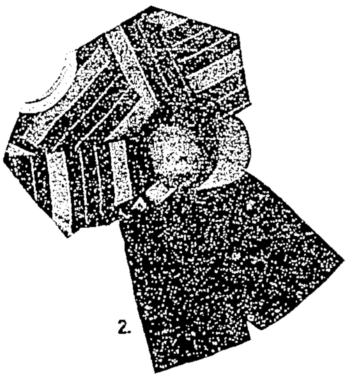


2.

Target's strong performance in 1984 reflects its rapid expansion in recent years as well as a continuing focus on the customer.

Sales productivity in the California stores opened in 1983 was better than the first-year average for recent major new-market entries. Sales began to strengthen during the year as improvements were made in assortments, in-stock positions and merchandise presentation.

Programs aimed at serving customers more effectively began to pay off in 1984. Improvements in distribution, inventory management and buying resulted in a more consistent offering for shoppers. At the same time, these programs improved gross margins even though Target continued to lower its everyday prices on a broad range of items in an effort to provide greater value to its customers.

Responding to the customer's increasing desire for better-quality apparel, Target introduced *Honors* sportswear in 1984. *Honors* is a private-label softlines program that features a fully coordinated line of apparel for the entire family.

Items selected for the *Honors* collection must represent a high-volume fashion trend as identified by Target's trend merchandising program. The quality standards for *Honors* merchandise are the highest for any of Target's softlines.

This emphasis on fashion and quality, at prices lower than national brands and comparable private-label brands, makes the *Honors* collection an exceptional value.

Customer response to the *Honors* line has been very positive.

Major merchandise trends in 1984 included toys such as Cabbage Patch dolls and robotics, including GoBots and Transformers. In housewares, space-saving under-the-counter appliances sold very well. Sales of active fleecewear also were very strong.

For 1985, toys are again expected to be a major growth area. The electronics category also will experience strong sales, particularly in videocassette recorders, as Target begins to implement a new everyday low price strategy. Key apparel trends will include bright colors and prints in rompers, shorts and woven tops.

Thirteen stores are scheduled to open in 1985. Among the planned openings are five stores in Los Angeles, which will bring the total there to 26.

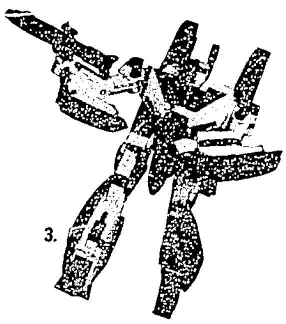
1. Front-loading videocassette recorders.
2. Related separates from the *Honors Sport* collection.
3. Transformer Autobot Air Guardian robotic toy.

1984 OPERATING HIGHLIGHTS

- **Revenues up 14% to $3.6 billion.**
- **Comparable-store revenues rise 7%.**
- **Operating profit up 33%.**
- **Gross margin rate improved; *operating expense* rate approximately equal to last year.**
- **Total stores rise to 215; five stores opened in new market of Phoenix.**
- **California stores show strong sales improvement.**

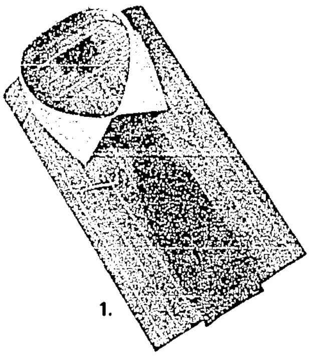
(Millions of Dollars)	1984	1983	1982
Revenues	$3,550.1	$3,118.4	$2,412.4
Operating Profit*	$ 235.6	$ 176.8	$ 150.1
Stores	215	205	167
Retail Square Feet (000)**	21,071	20,062	16,261

*Operating profit is LIFO earnings from operations before corporate and interest expense, unusual expenses and income taxes.
**Total square feet less office, warehouse and vacant space.



3.

Exceptional value in family soft-goods — the cornerstone of Mervyn's customer-focused merchandising strategy.



1.

In 1984, Mervyn's intensified its drive to become a national retail company. Seventeen new stores opened during the year, including nine in the recently formed South Central Territory.

Staying close to the customer while expanding rapidly is a key challenge for a growth company like Mervyn's. One way Mervyn's is responding to this challenge is through a long-range territorial growth strategy which divides the country into multiple geographic territories. Mervyn's expansion strategy calls for each of these territories to be managed by a separate organization that will be able to stay close to the special needs of its customers.

The first of these—the South Central Territorial management team—began operations in Texas in 1984. During the year, more than 200 people moved from California to the new territorial office in Dallas to staff separate merchandising, sales promotion, stores and distribution organizations. Their job is to ensure that Mervyn's unique merchandising identity is fully duplicated in South Central stores.

The cornerstone of Mervyn's merchandising identity is exceptional value, which Mervyn's defines as the right balance of quality, price, fashion, timeliness and customer service. Mervyn's took a number of steps during 1984 to strengthen each of these value elements.

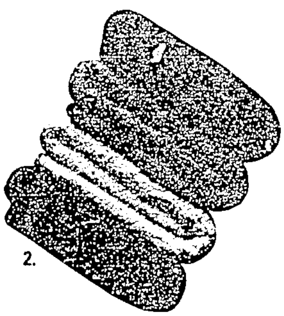
In response to growing demand for better-quality merchandise, Mervyn's upgraded its quality-control standards for private-label programs to ensure greater consistency in its offering.

A more competitive pricing strategy, which was implemented in 1983, was further refined to improve the balance between promotional prices and everyday low prices.

An increased emphasis on trend merchandising enabled Mervyn's to be in stock at the right time and in the right quantities in key fashion trends such as active fleecewear, as well as trends within major growth categories like children's wear and toys.

Planning began for an enhanced customer service program which will be fully implemented during 1986. Major features will include automatic price verification and on-line bankcard authorization.

Mervyn's will step up its expansion pace in 1985 by adding 21 stores. Thirteen stores will open in the South Central Territory.



2.

1. Mervyn's "Cambridge Classics"—traditional styles in menswear.
2. Bath towels from Mervyn's "Celebration" collection.
3. From children's wear—apparel for infants.

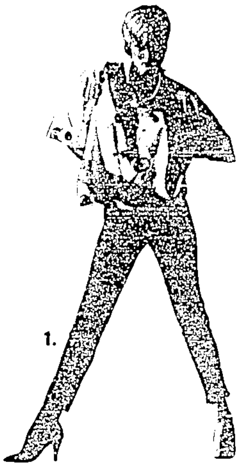
1984 OPERATING HIGHLIGHTS

- **Revenues increase 27% to top $2 billion.**
- **Comparable-store revenues rise 11%.**
- **Operating profit up 21%.**
- **Gross margin rate down from a year ago; operating expense rate improved.**
- **Seventeen stores opened.**
- **Eight new stores in Houston and one in Dallas bring total South Central Territory stores to 19.**

(Millions of Dollars)	1984	1983	1982
Revenues	$2,141.1	$1,688.9	$1,335.8
Operating Profit	$ 223.3	$ 184.5	$ 152.3
Stores	126	109	92
Retail Square Feet (000)	9,989	8,556	7,278

3.

Fashion trends for the home at the Dayton Hudson Department Store Company reflect a European influence.



1.

Department store operations were strategically repositioned in 1984 to create a single company, the Dayton Hudson Department Store Company—DHDSC.

Formed by the combination of Dayton's and Hudson's, DHDSC is the largest single department store operation in the U.S., with 36 stores in seven states and annual revenues of $1.4 billion.

The combination, which will be completed by 1987, brings together two of the most successful regional department store companies in the country. The new organization pools the strengths of each company in a single, unified operation with one primary objective — to serve the needs of the department store customer.

While the names of the individual Dayton's and Hudson's stores remain the same, customers are beginning to see other changes as a result of the combination.

Economies of scale are enabling the new merchandising organization to make better buys in the marketplace. The result: greater value to the customer through more competitive prices on higher quality merchandise.

The value offering also is being strengthened through expanded assortments, giving customers more to choose from in both basic and trend merchandise.

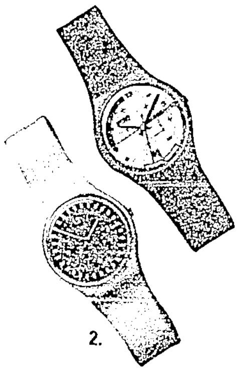
A key strategy for 1985 will be to intensify the company's focus on trend merchandise as customers continue to show interest in fashion and quality in apparel as well as in merchandise for the home.

For spring, apparel trends include "Sportique," a modern adaptation of all-American classics, and "Body Language," a form-fitting look combining styles from the '60s with fashion for the '80s. Brightly colored prints in tropical, graffiti and geometric patterns also will be a key fashion trend.

Trends for the home reflect a European influence. "Scandinavian" is a renaissance of the clean, functional Northern European designs of the 1950s. "Eurostyle" combines Art Deco, high-tech and neoclassic for an advanced look.

One new department store is planned for 1985, an 80,000-square-foot Dayton's scheduled to open in Bismarck, North Dakota, in August.

The strategic repositioning of department store operations during 1984 also involved the sale of Diamond's and John A. Brown. Both companies were at a geographic and strategic disadvantage because their operations could not easily be integrated into the long-term plan for DHDSC.



2.

3.

1. "Body Language"—lean form-fitting fashion for the '80s.
2. The sport-watch—a technicolor accessory for today's fashion looks.
3. "Eurostyle"—fashion accessories for the home.

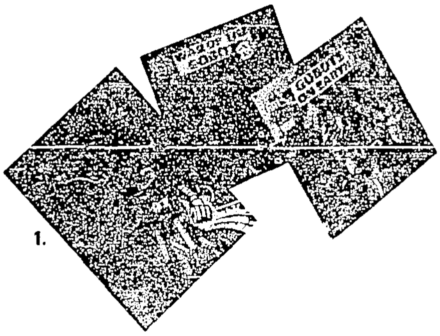
1984 OPERATING HIGHLIGHTS

- Dayton's, Hudson's combined to form Dayton Hudson Department Store Company—DHDSC.
- Diamond's, John A. Brown sold.
- DHDSC revenues rise 12%.
- Operating profit down 31%, due to lower gross margins resulting principally from promotional environment and merchandise consolidation at DHDSC.

(Millions of Dollars)	1984	1983	1982
Revenues*			
DHDSC	$1,396.3	$1,242.3	$1,121.1
Diamond's	102.8	159.8	143.0
John A. Brown	48.7	81.8	86.1
Total	$1,547.8	$1,483.9	$1,350.2
Operating Profit*	$ 106.7	$ 155.7	$ 114.4
Stores			
DHDSC	36	36	35
Diamond's	—	12	13
John A. Brown	—	6	6
Total	36	54	54
Retail Square Feet (000)			
DHDSC	7,896	7,984	7,883
Diamond's	—	1,494	1,563
John A. Brown	—	632	632
Total	7,896	10,110	10,078

*Results from Diamond's and John A. Brown included through September 29, 1984.

Sales of children's books continue to experience strong and steady growth at B. Dalton Bookseller.



1.

B Dalton implemented several strategies during 1984 designed to provide customers with greater value. Among these is the "Best Value" program, which was tested in selected stores a year earlier and expanded throughout the chain in 1984.

Every day, in every B. Dalton store, customers can choose from at least 10 "Best Values"—top-selling books offered at discounts of 20% to 40%. During seasonal selling events, the list of titles is expanded to as many as 25.

Customer response to the "Best Value" program has been excellent.

During 1984, B. Dalton also strengthened its commitment to being in stock at all times on key merchandise, assuring customers that they will find the books they want—when they want them. In addition, it sharpened its focus on being first to offer customers the latest trends.

Juvenile books continued to be a strong growth category in 1984. Foreign language and travel books also were very strong sellers, reflecting an increase in travel abroad by Americans.

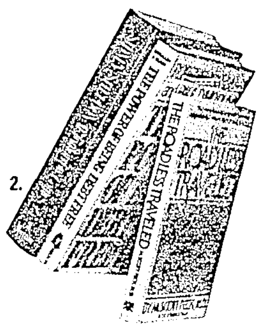
Best-selling individual titles included *1984* by George Orwell, of which more than 130,000 copies were sold by B. Dalton during the year. *Iacocca* by Lee Iacocca with William Novak was also a best seller.

Major category trends for 1985 will again include juvenile books as well as books-on-tape and self-help and inspirational tapes. Sales of value-priced books also are projected to be very strong.

In 1985, B. Dalton will expand its computer software offering with the addition of a separate software category. The software "store-within-a-store" strategy, which was tested in 1984, will be expanded to more than 20 stores.

Fiscal 1984 also saw the expansion of Pickwick Discount Books. During the year, Pickwick opened 18 stores, introducing its value offering to new customers in Denver, Minneapolis and St. Paul.

Lechmere took an important first step in its expansion with the opening of two new stores in 1984—one in Boston and one in the Providence, Rhode Island area. Two additional stores are planned for 1985.



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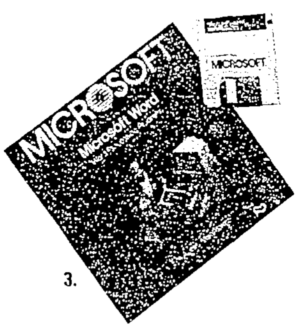


3.

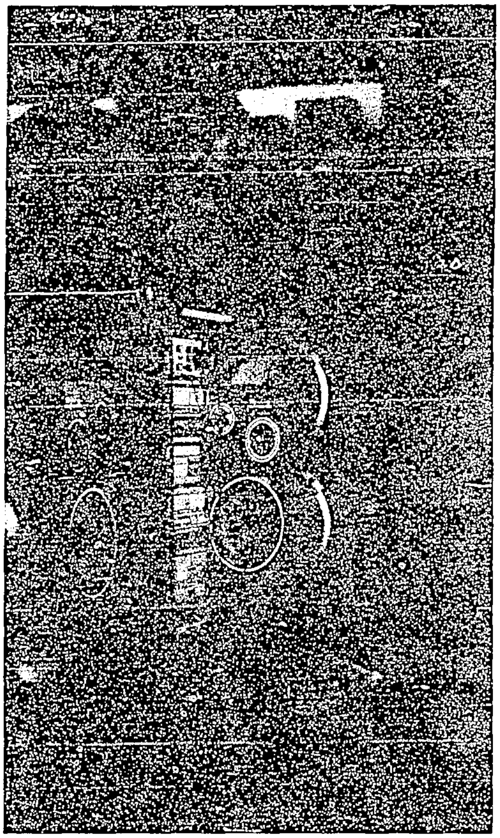
1. The robotics trend—for young readers.
2. Fiction and nonfiction bestsellers.
3. Word processing software program.

1984 OPERATING HIGHLIGHTS

- Total revenues up 15%.
- Comparable-store revenues up 8%.
- Operating profit down 2%.
- B. Dalton's revenues up 10%; operating profit down 6%.
- Lechmere's revenues up 23%; operating profit up 7%.
- B. Dalton adds 32 stores.
- Pickwick opens 18 stores.
- Lechmere begins expansion with two new stores.

(Millions of Dollars)	1984	1983	1982
Revenues*			
B. Dalton	$489.8	$445.1	$374.3
Lechmere	280.2	227.0	188.0
Total	$770.0	$672.1	$562.3
Operating Profit*	$ 58.8	$ 60.0	$ 43.1
Stores			
B. Dalton	729	697	658
Pickwick	22	4	4
Lechmere	8	6	6
Total	759	707	668
Retail Square Feet (000)			
B. Dalton	2,520	2,433	2,319
Pickwick	67	13	13
Lechmere	971	790	930
Total	3,558	3,236	3,262

*Pickwick's results not included.



Remodeling of Lechmere's existing stores was completed in 1984. Throughout the three-year renovation program, the primary objective was to create a "customer-friendly" store—a shopping environment that is simple, convenient and respectful of the customer's time.

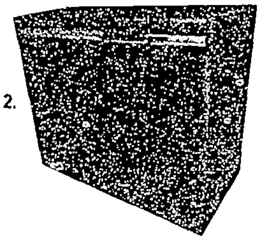
The remodeled stores feature convenient department adjacencies that are identified with clear and easily read signing. "Hands-on" product displays let customers try out merchandise before buying, while information-intensive signs answer their questions. Once their purchase is complete, a fast computerized check-out system enables customers to leave the store quickly.

Lechmere's new stores incorporate the innovations developed and implemented during the remodeling as well as several other improvements, including electronic signs and merchandise displays.

Merchandise trends at Lechmere reflect the company's commitment to leadership in new and innovative products in home and leisure-time merchandise. The most popular trends in 1984 included digital audio compact disc players and discs, videocassette recorders, pre-recorded videocassettes and physical fitness equipment.

Lechmere expects strong growth in a number of sophisticated electronics products in 1985, including stereo televisions and videocassette recorders, high resolution television monitors and receivers, and digital audio car systems and digital recorders. Audio rack systems, which combine components in a one-brand, compatibly tuned system, also are projected to be strong sellers.

Lechmere is committed to leadership in new and innovative home and leisure-time products.



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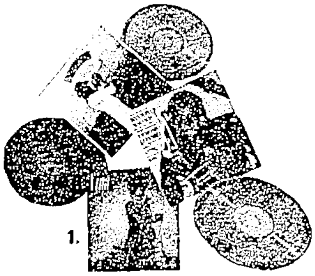


1.

1. Digital audio compact discs.
2. Stereo broadcast sound televisions.

Just as our customer focus is critical to our merchandising success, our focus on the communities in which we do business is equally vital to our overall success. For us, that means a comprehensive program of corporate public involvement, including community giving and volunteering, community investment and development, and government relations.

A History of Community Involvement
Community involvement has always been a cornerstone of our business. Since 1946, we have budgeted 5% of our federal taxable income for community giving. In 1984, our community giving budget totaled $16.7 million.

Long ago we decided to focus our giving in two areas: social action and the arts. The following examples illustrate how the Dayton Hudson Foundation, Dayton Hudson Corporation and our operating companies focused on our communities during 1984.

Focus on Families
Target and Mervyn's have a strong interest in families and children. Last year they joined forces with the Dayton Hudson Foundation to support "Your Children, Our Children," a provocative public television series. It was the first television series to focus national attention on America's 67 million children.

"Your Children, Our Children" looked at issues that cross economic, geographic and racial lines. It explored subjects central to children and young adults, such as sexuality, working, child care, and abuse and neglect.

Target and Mervyn's initiated community activities to ensure long-term impact at the local, state and federal level. Each of the seven programs was complemented by local outreach efforts.

As a result, "Your Children, Our Children" continues to be used throughout the country as an educational and advocacy tool for children and young adults.

Focus on Women and Girls
Many barriers stand in the way of women and girls achieving their full potential. For many, choices and opportunities remain limited.

The Dayton Hudson Department Store Company has taken a leadership role in focusing on the needs of women and girls. In 1984, it co-sponsored a conference, "The Economic Future of Girls and Young Women." From the conference, DHDSC developed two initiatives to help adolescent girls achieve independence. A play, "Red Light/Green Light"—illustrating the frustrations and challenges of being an adolescent female in the 1980s—is one result. The other is a training and personal development program for young women "at risk."

The Dayton Hudson Foundation also took the lead in this area by pledging $500,000 to the new Minnesota Women's Fund. The fund is the first state-wide, multi-million dollar effort of its kind in the United States. It is dedicated to removing barriers to the economic and personal growth of women and girls in Minnesota.

Focus on Taxes and Trade
An important issue we're addressing at the federal level is the tax issue. We strongly support the proposal to reform the federal tax system by lowering rates and streamlining the process. The Treasury Department's proposal is a giant step toward developing a tax system that is fair and simple for both individuals and corporations.

During 1984, we also continued our fight against import restrictions. We believe we must have an open trading system to ensure access to the international marketplace. Import quotas cost the consumer billions of dollars in higher prices each year. Quotas limit competition, which hurts not only our customers, but workers and other businesses as well.

Scene from "Your Children, Our Children," a public television series supported by Target, Mervyn's and the Dayton Hudson Foundation.

Our financial goal is to provide our shareholders with a superior return on their investment while maintaining a conservative financial position. To provide a framework for decision making, we have established performance objectives and financial policies to support this goal.

Performance Objectives

Our performance objectives are designed to represent competitive excellence. These objectives change periodically in response to our competitive environment.

Our current objectives are:

- To earn an after-tax return on beginning shareholders' equity (ROE) of at least 18%.
- To sustain an annual growth in earnings per share (EPS) of at least 15%.
- To maintain a strong rating of our senior debt.

In 1984, we fell short of our ROE and earnings growth objectives. Our return on beginning shareholders' equity was 16.8%, compared with 18.2% in 1983. Earnings per share increased 5.5% following an increase of 18.1% in 1983. Our senior debt continues to carry AA and Aa2 ratings from Standard & Poor's and Moody's, respectively—both strong investment grade ratings. In addition to the strong ratings on our long-term debt, our commercial paper is rated A-1 + by Standard & Poor's and P-1 by Moody's.

Return on Investment

Achieving our performance objectives depends largely upon our ability to produce a superior return on investment (ROI). We believe that ROI is the most important single measure of financial performance. ROI is the primary financial tool we use to manage our business.

We define ROI as our after-tax return before borrowing costs on unleveraged investment.

$$\text{ROI} = \frac{\text{Sales}}{\text{Investment}} \times \frac{\text{Earnings}}{\text{Sales}}$$

	ROI	=	Investment Turnover	x	Return on Sales
1984	**12.1%**	=	**2.85**	x	**4.23%**
1983	13.0%	=	2.88	x	4.52%

The following table shows the calculation of ROI for 1984 and 1983:

(Millions of Dollars)	1984	1983
Net earnings	**$ 259.3**	$ 245.5
Interest expense – after tax (a)	**49.7**	41.6
Interest equivalent in leases - after tax (b)	**22.6**	20.6
Earnings before financing costs	**$ 331.6**	$ 307.7
Working capital (c)	**$ 877.2**	$ 728.2
Net property and equipment	**1,370.6**	1,199.2
Capital leases	**115.8**	97.9
Other non-current assets	**14.7**	12.4
Present value of operating leases	**373.0**	323.5
Total investment at beginning of year	**$2,751.3**	$2,361.2
Return on investment	**12.1%**	13.0%

(a) Interest expense on debt and capital lease obligations existing at the beginning of the year.

(b) Determined using an after-tax interest rate of 6.1% on beginning-of-year present value of operating leases.

(c) Current assets less non-interest bearing current liabilities.

Our future success in achieving our performance objectives will depend largely upon our continued effective application of the ROI tool in the following management processes:

Performance Appraisal. Corporate management and the management of each operating company are evaluated and compensated based on return on investment, as well as on growth in earnings.

Capital Allocation. We allocate capital for expansion based on each operating company's past and projected performance measured against its ROI standard. Additional criteria for allocating capital include the quality of the company's strategic plan, strength of the management team and systems, and development of market position.

Capital Project Evaluation. All capital projects are expected to achieve a 14% ROI by the fifth full year of operation and an internal rate of return over their life of 14%. The internal rate of return standard is used to provide a profit above our cost of capital on incremental investment. Audits of actual results in the years following completion determine whether individual project performance has met our standards.

Financial Policies

Consistent with our objective of maintaining a strong rating on our senior debt, we have established several financial policies. These policies include a maximum debt ratio, including capital leases and the present value of operating leases, of 45% of total capitalization. Despite our expansion program, this ratio has been stable in recent years because of our strong internal cash flow. The decline in 1984 is due to cash flow generated from the sale of Diamond's and John A. Brown.

Capitalization (Millions of Dollars)	**1984**	1983	1982
Notes payable	**$ —**	$ —	$ —
Long-term debt (a)	**631.1**	630.4	533.6
Capital leases (a)	**129.9**	129.0	107.9
Present value of operating leases	**373.6**	373.0	323.5
Total debt and equivalent	**1,134.6**	1,132.4	965.0
Deferred items	**104.3**	78.7	47.5
Equity	**1,736.5**	1,540.2	1,348.8
Total capitalization	**$2,975.4**	$2,751.3	$2,361.3
Debt ratio (total debt and equivalent as a percentage of total capitalization)	**38%**	41%	41%

(a) Including current portion.

We issued minimal long-term debt in 1984. In 1983, we issued $100 million of 10-3/4% sinking fund debentures due 2013. In 1982, we completed two issues of $100 million each of sinking fund debentures due 2012. We used the proceeds from these issues to fund our capital investment program.

The majority of our growth will continue to be financed with internally generated funds. To fund the remainder of our future growth, we intend to use a mix of intermediate-term and long-term debt which is consistent with the cash flow characteristics of our investments. Commercial paper will continue to be used primarily to fund seasonal working capital requirements.

Because of the lead times required for planning and construction of our stores, we make commitments for some of our capital projects in advance of the time when the capital expenditures are made. Our financial policies limit the amount of such forward commitments to the level that could be funded by projected internally generated funds.

Capital Investment

We have concentrated our capital investments in recent years in Target and Mervyn's. In 1984, capital investment in retail operations, including the present value of all new capital and operating leases, totaled $397 million.

(Millions of Dollars)	**1984**	1983	1982
Capital expenditures	**$358**	$335	$284
Present value of new operating leases	**39**	42	111
Total	**$397**	$377	$395

In 1985, capital investment, including all leases, is expected to total more than $500 million. For the 1985-89 period, current plans anticipate capital investment of approximately $3.2 billion.

Dividends and Common Stock Price

In support of our goal of providing our shareholders with a superior return on their investment, it is our policy to make regular annual increases in dividends on Common Stock.

Dividends declared in 1984 totaled $.69½ per share, an 11% increase over the $.62½ per share declared in 1983. The quarterly dividend was increased to $.18½ per share for the dividend declared on October 10, 1984. The current annualized rate is $.74 per share. All dividends have been adjusted to reflect a two-for-one stock split effective July 1983.

Dayton Hudson Corporation Common Stock is listed on the New York Stock Exchange and the Pacific Stock Exchange with the symbol DH, and abbreviated in newspaper listings as DaytHd. At year-end, the number of Dayton Hudson shareholders of record was 15,898, compared with 14,620 at year-end 1983. On April 3, 1985, there were 15,591 shareholders of record and the Common Stock price was $38⅜.

	Quarterly Dividend Declared Per Share		Common Stock Price Range			
Fiscal			1984		1983	
Quarter	**1984**	1983	**High**	**Low**	High	Low
First	**$.16¼**	$.15	**$32½**	**$27½**	$36¾	$26¼
Second	**.16¼**	.15	**33¼**	**26⅛**	40⅝	33¼
Third	**.18½**	.16¼	**37¼**	**31⅛**	38⅛	30¾
Fourth	**.18½**	.16¼	**37**	**29⅜**	37⅝	29
Total Year	**$.69½**	$.62½	**$37¼**	**$26⅛**	$40⅝	$26¼

(Thousands of Dollars, Except Per-Share Data)

We achieved a 15% increase in revenues and a 6% increase in earnings in 1984. This performance follows a revenue increase of 23% and earnings growth of 19% in 1983. Our fiscal year included 53 weeks in 1984 and 52 weeks in 1983. The 1984 revenue increase on a comparable 52-week basis would be 13%. Increased sales due to expansion combined with strong sales growth within our base business were key factors in our 1984 revenue increase.

In an ongoing effort to bring greater value to our customers, we continued the competitive pricing strategies implemented in 1983. These strategies, along with a highly promotional environment throughout much of 1984, reduced our gross margin rate, although they had a positive effect on sales.

Our 1984 earnings were reduced by unusual expenses of $.09 per share resulting from the strategic repositioning of our department store business. The unusual expenses are the result of the combination of the Dayton's and Hudson's divisions in May and costs associated with the sale of the Diamond's and John A. Brown divisions in September.

Our 1984 results benefited from the last-in, first-out (LIFO) method of valuing inventories and determining the related cost of sales. Our 1984 LIFO provision was a credit of $.01 per share, compared with expense of $.13 per share for 1983. This resulted from a very low inflation rate in 1984, combined with changes in our inventory levels and initial mark-up rates.

The following table illustrates the impact of the major factors in our earnings growth since 1981.

Consolidated Earnings Per Share Variance analysis:	1984 vs. 1983	1983 vs. 1982	1982 vs. 1981
Prior year's earnings per share	**$2.54**	$2.15	$1.81
Change in earnings per share due to:			
Revenues	**.43**	.58	.36
Gross margin rate	**(.30)**	(.22)	.03
Operating expense rate	**.10**	.30	.21
Start-up expenses	**.04**	(.05)	(.02)
Interest expense, net	**(.06)**	(.10)	(.10)
Unusual expenses	**(.09)**	—	—
Income tax rate	**(.02)**	.04	(.11)
Corporate expense and other factors, net	**.04**	(.16)	(.03)
Earnings per share	**$2.68**	$2.54	$2.15

In 1984, we began combining the results from our discontinued real estate business with net earnings from our retail operations. Prior years' results have been reclassified to reflect this combination.

Revenues

Target, Mervyn's and our specialty merchandisers segment each reported double-digit increases in total revenues for 1984. Department store revenue increased only 4%. This reflects the absence of revenues from Diamond's and John A. Brown after their sale in September. If revenues from these companies are excluded from 1984 and 1983 results, department store revenues increased 12% for the year.

The major portion of our revenue growth was generated by Target and Mervyn's, primarily the result of aggressive expansion over the past few years. In addition to revenue growth from expansion, each of our business segments reported increases in comparable-store revenues (revenues from stores open longer than 12 months).

Revenue Increases	1984 (53 weeks) All Stores*	1984 (53 weeks) Comparable Stores	1983 (52 weeks) All Stores	1983 (52 weeks) Comparable Stores	1982 (52 weeks) All Stores	1982 (52 weeks) Comparable Stores
Target	**14%**	**7%**	29%	8%	17%	8%
Mervyn's	**27**	**11**	26	13	26	11
Department stores	**4**	**12**	10	11	5	4
Specialty merchandisers	**15**	**8**	20	14	4	9
Total	**15%**	**9%**	23%	11%	15%	7%

*Revenues for 1984 include results from Diamond's and John A. Brown through September 29, 1984.

One measure we use to evaluate the productivity of our stores is revenues per square foot. All four of our business segments again reported increases in 1984.

Revenues Per Square Foot* (Unaudited) (Dollars)	1984	1983	1982
Target	**$173**	$172	$156
Mervyn's	**$231**	$213	$197
Department stores**	**$176**	$157	$137
Specialty merchandisers	**$229**	$209	$117

*Average of beginning- and end-of-year retail square feet.
**Excluding revenues from Diamond's and John A. Brown.

Our percentage of credit sales to total sales continued to grow in 1984, increasing to 41% from 39% in 1983 and 38% in 1982. Strong credit sales growth at Mervyn's and greater use of third-party credit cards throughout our companies contributed to the increase. We recorded finance charge revenues of $136,256 on internal credit sales of $2,186,890 in 1984, $124,341 on sales of $1,902,572 in 1983 and $102,229 on sales of $1,597,297 in 1982. The increases are due to the strong growth in internal credit sales. The provision for bad debts, as a percentage of internal credit sales, was 1.8% in 1984 and 2.0% in both 1983 and 1982.

Gross Margin Rate and Cost of Sales

Our overall gross margin rate (excluding buying and occupancy) declined in 1984 due to the highly promotional environment and the continuation of our competitive pricing strategy. Our plan is to aggressively build sales volume, with a focus on generating strong increases in gross margin dollars, while at the same time emphasizing effective expense control.

Gross margin rates declined in our department stores, Mervyn's and the specialty merchandisers, while Target's rate improved. The merchandise consolidation at DHDSC also contributed to the department store group's lower gross margin rate. Declines at Target and Mervyn's in 1983 contributed to that year's lower overall rate. A gross margin improvement in 1982 resulted from an increase at Target.

Operating Expense Rate

Our operating expense rate was 26.9% of sales, a slight improvement from 27.0% in 1983 and 27.9% in 1982. This stems primarily from our continued emphasis on operating expense control. Better expense control at Mervyn's and within our department store segment improved their operating expense rates in 1984. Mervyn's 1984 improvement is significant considering both the number of new stores opened and the beginning of operations in the South Central Territorial office. Operating expenses include buying and occupancy, selling, publicity and administrative, depreciation, rent and taxes other than income taxes. They exclude start-up expenses.

Start-up Expenses

Start-up expenses include various personnel costs and construction-related expenses that are not capitalized. Due to aggressive expansion, Target and Mervyn's have accounted for the majority of our start-up expenses during the last three years. Mervyn's higher start-up expenses during 1984 and 1983 reflect primarily its expansion into Texas. Target opened 54 new stores in 1983 and 1982, resulting in the high start-up expenses for those years.

(Unaudited)	1984	1983	1982
Target	**$ 7,200**	$17,400	$16,300
Mervyn's	**14,700**	13,000	5,900
Department stores	**2,200**	2,700	2,400
Specialty merchandisers	**4,300**	2,200	2,300
Total	**$28,400**	$35,300	$26,900

Interest Expense

Our interest costs have risen as a result of higher levels of debt due to expansion and working capital requirements. The 1984 percentage increase over 1983 is less than the prior-year increase due to a combination of minimal new long-term debt and the sale of Diamond's and John A. Brown. Interest costs incurred during the period of construction or remodeling are capitalized as part of an asset's cost. Our expense is reduced by this capitalized interest. Interest expense is reported net of interest income, which results from seasonal cash flows and from the temporary investment of proceeds from debt issues.

Components of Interest Expense, Net	1984	1983	1982
Interest cost incurred	**$88,771**	$79,139	$65,525
Interest cost capitalized	**(4,260)**	(3,287)	(6,944)
Interest expense	**84,511**	75,852	58,581
Interest income	**(3,054)**	(4,403)	(4,509)
Net expense	**$81,457**	$71,449	$54,072

Income Tax Rate

Our effective income tax rate was 45.9% in 1984, 45.5% in 1983, and 46.3% in 1982. The increase in the 1984 rate was partially due to investment tax credit recapture from the sale of Diamond's and John A. Brown. Our tax rates in 1984 and 1983 are lower than the 1982 rate, reflecting higher investment tax credits due primarily to expansion by Target and Mervyn's. Our effective tax rates for 1984, 1983 and 1982 vary from the federal statutory rate as follows:

(Percent of Earnings Before Income Taxes)	1984	1983	1982
Statutory rate	**46.0%**	46.0%	46.0%
State income taxes, net of federal tax benefit	**4.0**	3.8	3.9
Tax credits, net*	**(3.3)**	(4.3)	(3.2)
Other	**(.8)**	—	(.4)
Effective tax rate	**45.9%**	45.5%	46.3%

*Net tax credits, primarily investment tax credits, were $15,871 in 1984, $19,193 in 1983 and $11,867 in 1982.

The components of the provision for income taxes for the last three years are:

	1984	1983	1982
Current:			
Federal	**$176,418**	$138,116	$105,867
State	**34,038**	26,236	18,315
	210,456	164,352	124,182
Deferred:			
Federal	**8,505**	36,052	46,533
State	**1,035**	4,809	7,398
	9,540	40,861	53,931
Total	**$219,996**	$205,213	$178,113

We provide deferred income taxes for income and expenses which are recognized in different years for financial and tax reporting. Our deferred tax provision is comprised of the following timing differences:

	1984	1983	1982
Excess of tax over book depreciation	**$ 30,212**	$ 26,822	$ 15,141
Deferred income on installment sales	**(4,715)**	21,031	31,578
Capitalized interest	**(1,078)**	1,322	3,472
Write-down of assets	**(9,595)**	(4,190)	5,138
Lease capitalization	**(1,340)**	(1,375)	(755)
Other	**(3,944)**	(2,749)	(643)
Provision for deferred taxes	**$ 9,540**	$ 40,861	$ 53,931

Significant Events

- *Strategic Changes–Department Stores.* Strategic changes in our department store segment resulted in unusual expenses totaling $16,777 ($.09 per share) in 1984. The Dayton Hudson Department Store Company was formed by the combination of Dayton's and Hudson's effective May 1. Effective September 30, we sold substantially all the assets of Diamond's and John A. Brown to another retailer.
- *Sale of Plums.* In February 1984, we announced the end of our test strategy in off-price retailing, Plums, because the projected rate of return did not equal that of our established companies. The four store locations and most of the assets were sold to another retailer. The costs associated with Plums are included in 1983 earnings. The impact is not significant.
- *Common Stock Splits.* On June 8, 1983, the Board of Directors authorized a two-for-one stock split effected in the form of a 100% stock dividend payable July 22, 1983, to shareholders of record June 30, 1983. The par value of the stock dividend was transferred from the Additional Paid-In Capital account to the Common Stock account effective July 22, 1983.
- *Target Lease Acquisitions.* In August 1982, Target entered into agreements covering store locations in California, Arizona and Texas formerly operated by another retailer. The rent and start-up expenses incurred while the stores were closed for remodeling had a negative impact on earnings of $.03 per share in 1983 and $.08 per share in 1982.
- *Sale of Dayton Hudson Jewelers.* Effective January 30, 1982, we sold all of the assets of Dayton Hudson Jewelers for cash and the assumption of certain liabilities. The sale resulted in a gain of $7,452, most of which was recognized during fiscal 1982. The company was included in our specialty merchandisers segment.

Quarterly Results (Unaudited)
We follow the same accounting policies in preparing our quarterly financial data as we do in preparing our annual data, with the following modifications:

- We expense costs of opening new stores evenly throughout the year in which they are incurred.
- We recognize real estate taxes, bonuses, professional fees and pension plan expense throughout the year based on anticipated annual amounts.
- We accrue charitable contribution expense based on taxable income.
- We incur additional rental expense on the majority of our leased stores if the stores' annual sales exceed certain stipulated amounts. We estimate and record this additional rent each month based on actual monthly sales.
- We use our anticipated effective annual tax rate to compute income taxes on our quarterly earnings.
- During the year we forecast our annual LIFO expense based on estimates of three factors: inflation rates (based on the Department Stores Inventory Price Index published by the Bureau of Labor Statistics), inventory levels and initial mark-up levels. We allocate the projected expense to the quarters based on our historical experience of quarterly sales. In the fourth quarter of each year, we record an adjustment reflecting the difference between our estimates and actual LIFO expense. Our final 1984 LIFO provision was a credit of $.01. This was significantly below our quarterly estimates due to a much lower than anticipated rate of inflation as well as changes in our inventory levels. Our final 1983 and 1982 LIFO expense amounts also were below our quarterly estimates due to changes in all three factors. The following table shows the LIFO impact on earnings per share as we reported it and as it would have been if we had known the final inflation rates, inventory levels and mark-up rates when we made our quarterly accruals.

LIFO Expense (Credit)	As Reported			Reallocated		
Quarter	**1984**	1983	1982	**1984**	1983	1982
First	**$ .06**	$ .03	$ .04	**$ —**	$ .03	$ —
Second	**.02**	.05	.03	**—**	.03	—
Third	**(.01)**	.05	—	**—**	.03	—
Fourth	**(.08)**	—	(.06)	**(.01)**	.04	.01
Total Year	**($.01)**	$ .13	$ .01	**($.01)**	$ .13	$ .01

Sales were strong throughout 1984, with greater gains reported in the second half of the year. Despite improving economic conditions, the retail environment continued to be highly competitive, resulting in a heavy emphasis on promotions. The continuance of our more competitive pricing strategies reduced gross margin rates during the year. They were lower than 1983 for the second, third and fourth quarters. (These comparisons are based on gross margins which have been adjusted for the reallocation of LIFO expense described above.) Our overall operating expense rate was better than last year for each quarter.

Business Segment Trends
The mix of our business operations continues to change. Target and Mervyn's are contributing the greater portion of our revenues and operating profit, while the percentage of the total contributed by our department store segment is declining. The business segment data on page 21 quantifies the shift into these high-growth strategies. The percentage of revenues generated by Target and Mervyn's has grown from 52% in 1979 to 71% in 1984. Operating profit generated by the two companies has increased from 53% in 1979 to 74% in 1984. In 1979, department stores generated 35% of total revenues and 38% of total operating profit, compared with 19% and 17%, respectively, in 1984.

The rapid expansion of Target and Mervyn's reflects our philosophy of allocating capital investment funds to the companies with the greatest potential for growth and return on investment. We anticipate continued growth from Target and Mervyn's. We currently project that nearly 80% of our capital investment dollars during the next five years will be allocated to these two companies. In 1984, 31% of our capital expenditures were made by Target and 46% were made by Mervyn's.

Target's operating profit has risen from 27% of our total in 1979 to 38% in 1984, growing at a compound annual rate of 27% since 1979. Mervyn's operating profit has risen from 26% of our total in 1979 to 36% in 1984, and has grown at a compound annual rate of 27% since 1979. Department stores reported a 31% decrease in operating profit in 1984, due primarily to gross margin reductions and the absence of earnings contribution from Diamond's and John A. Brown after September 29, 1984. The specialty merchandisers had a 2% decrease in operating profit for 1984.

Our revenues have increased at a compound annual rate of 19% since 1979. Target and Mervyn's account for the greatest portion of that growth. The compound annual growth rates of revenues since 1979 are as follows: Target—26%; Mervyn's—27%; the department store group—6%; and the specialty merchandisers group—12%.

(Millions of Dollars Except Per-Share Data)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total Year	
	1984	1983	**1984**	1983	**1984**	1983	**1984(b)**	1983	**1984**	1983
Revenues	**$1,618.0**	$1,372.4	**$1,784.1**	$1,544.8	**$1,868.8**	$1,659.6	**$2,738.1**	$2,386.5	**$8,009.0**	$6,963.3
Gross Profit(a)	**$ 471.2**	$ 405.4	**$ 519.8**	$ 453.0	**$ 551.2**	$ 490.5	**$ 757.3**	$ 689.5	**$2,299.5**	$2,038.4
Net Earnings	**$ 28.4**	$ 22.7	**$ 39.1**	$ 36.1	**$ 43.2**	$ 44.5	**$ 148.6**	$ 142.2	**$ 259.3**	$ 245.5
Earnings Per Share	**$ .29**	$ .24	**$ .41**	$ .37	**$ .44**	$ .46	**$ 1.54**	$ 1.47	**$ 2.68**	$ 2.54

(a) Gross profit is revenue less cost of sales, buying and occupancy.
(b) Consisted of 14 weeks.

BUSINESS SEGMENT COMPARISONS

(Millions of Dollars)	1984	1983	1982	1981	1980	1979
Revenues						
Target	**$3,550.1**	$3,118.4	$2,412.4	$2,054.3	$1,531.7	$1,120.5
Mervyn's	**2,141.1**	1,688.9	1,335.8	1,062.3	826.9	655.9
Department stores	**1,547.8**	1,483.9	1,350.2	1,285.5	1,203.9	1,173.8
Specialty merchandisers	**770.0**	672.1	562.3	540.8	471.0	434.6
Total	**$8,009.0**	$6,963.3	$5,660.7	$4,942.9	$4,033.5	$3,384.8
Operating profit						
Target	**$ 235.6**	$ 176.8	$ 150.1	$ 108.7	$ 91.1	$ 72.9
Mervyn's	**223.3**	184.5	152.3	119.6	76.3	68.6
Department stores	**106.7**	155.7	114.4	89.9	94.0	103.0
Specialty merchandisers	**58.8**	60.0	43.1	36.4	20.1	23.6
Total	**624.4**	577.0	459.9	354.6	281.5	268.1
Corporate expense	**30.6**	40.2	10.2	20.0	17.6	22.0
Interest expense (income)	**81.5**	71.4	54.1	36.6	5.2	(1.1)
Interest expense on capital leases	**16.2**	14.7	10.8	10.5	8.4	6.5
Unusual expenses	**16.8**	—	—	—	—	—
Earnings before income taxes	**479.3**	450.7	384.8	287.5	250.3	240.7
Provision for income taxes	**220.0**	205.2	178.1	128.0	112.1	114.2
Net earnings:						
Continuing operations	**259.3**	245.5	206.7	159.5	138.2	126.5
Discontinued operations	—	—	—	13.9	8.5	65.6
Consolidated	**$ 259.3**	$ 245.5	$ 206.7	$ 173.4	$ 146.7	$ 192.1
Operating profit as a percent of revenues						
Target	**6.6%**	5.7%	6.2%	5.3%	5.9%	6.5%
Mervyn's	**10.4**	10.9	11.4	11.3	9.2	10.5
Department stores	**6.9**	10.5	8.5	7.0	7.8	8.8
Specialty merchandisers	**7.6**	8.9	7.7	6.7	4.3	5.4
Assets						
Target	**$1,374.9**	$1,257.8	$1,056.2	$ 886.2	$ 708.4	$ 443.9
Mervyn's	**1,328.9**	1,064.2	821.3	597.4	434.3	322.8
Department stores	**727.2**	863.3	819.5	787.7	734.1	686.1
Specialty merchandisers	**348.7**	291.1	241.8	204.5	224.8	205.4
Corporate	**20.2**	118.5	46.5	64.7	17.9	93.7
	3,799.9	3,594.9	2,985.3	2,540.5	2,119.5	1,751.9
Discontinued operations, net	—	—	—	14.7	35.7	41.3
Total	**$3,799.9**	$3,594.9	$2,985.3	$2,555.2	$2,155.2	$1,793.2
Depreciation						
Target	**$ 65.7**	$ 56.4	$ 42.1	$ 35.2	$ 21.8	$ 13.7
Mervyn's	**42.7**	30.0	23.6	17.3	12.9	8.4
Department stores	**31.9**	33.0	31.2	29.8	25.0	22.3
Specialty merchandisers	**14.7**	12.0	10.4	9.5	7.6	5.8
Corporate	**1.6**	1.7	.7	.4	.4	.4
	156.6	133.1	108.0	92.2	67.7	50.6
Less depreciation on capital leases	**8.1**	7.7	7.9	8.1	8.2	6.9
Total	**$ 148.5**	$ 125.4	$ 100.1	$ 84.1	$ 59.5	$ 43.7
Capital expenditures						
Target	**$ 109.8**	$ 143.4	$ 137.5	$ 118.9	$ 125.7	$ 102.9
Mervyn's	**165.4**	138.3	95.7	68.4	67.5	46.4
Department stores	**33.5**	26.5	27.8	46.5	51.8	46.1
Specialty merchandisers	**44.2**	19.6	18.6	18.7	20.0	22.5
Corporate	**4.9**	6.8	4.3	1.2	.2	.3
	357.8	334.6	283.9	253.7	265.2	218.2
Less expenditures on capital leases	**10.5**	25.6	11.9	—	.4	6.9
Total	**$ 347.3**	$ 309.0	$ 272.0	$ 253.7	$ 264.8	$ 211.3

Segment information for 1983 and 1982 has been reclassified to reflect the combination of discontinued operations with retail results.

CONSOLIDATED RESULTS OF OPERATIONS

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars, Except Per-Share Data)	1984 53 Weeks Ended February 2, 1985	1983 52 Weeks Ended January 28, 1984	1982 52 Weeks Ended January 29, 1983
Revenues	$8,009,030	$6,963,255	$5,660,729
Costs and Expenses			
Cost of retail sales, buying and occupancy	5,709,483	4,924,887	3,957,861
Selling, publicity and administrative	1,310,042	1,160,472	971,771
Depreciation	148,453	125,471	100,186
Rental expense	102,904	96,593	78,253
Interest expense, net	81,457	71,449	54,072
Interest and depreciation on capital leases	24,333	22,406	18,648
Taxes other than income taxes	136,239	111,307	95,109
Unusual expenses	16,777	—	—
	7,529,688	6,512,585	5,275,900
Earnings Before Income Taxes	479,342	450,670	384,829
Provision for Income Taxes			
Current	210,456	164,352	124,182
Deferred	9,540	40,861	53,931
	219,996	205,213	178,113
Net Earnings	$ 259,346	$ 245,457	$ 206,716
Net Earnings Per Share	$ 2.68	$ 2.54	$ 2.15

These financial statements should be read in conjunction with information contained on pages 18-21 and 26-29.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)	1984 February 2, 1985	1983 January 28, 1984
Assets		
Current Assets		
Cash	$ 59,462	$ 47,571
Marketable securities	2,500	71,350
Accounts receivable (net of allowance for doubtful accounts of $26,520 and $26,777)	995,967	954,840
Merchandise inventories (net of accumulated LIFO provision of $149,408 and $160,136)	1,103,922	998,711
Other	19,267	21,354
	2,181,118	2,093,826
Property and Equipment		
Land	194,705	167,115
Buildings and improvements	1,080,952	1,004,266
Fixtures and equipment	761,416	677,656
Construction-in-progress	74,213	60,731
Accumulated depreciation	(620,328)	(539,158)
	1,490,958	1,370,610
Property Under Capital Leases, Net	114,733	115,776
Other	13,041	14,707
	$ 3,799,850	$ 3,594,919
Liabilities and Shareholders' Investment		
Current Liabilities		
Accounts payable (including outstanding drafts of $126,727 and $147,682)	$ 611,490	$ 612,861
Accrued liabilities	322,541	332,156
Income taxes payable	104,302	107,186
Current deferred income taxes	159,679	164,394
Current portion of capital lease obligations and long-term debt	10,356	8,664
	1,208,368	1,225,261
Capital Lease Obligations	125,197	123,935
Long-Term Debt	625,442	626,824
Deferred Income Taxes and Other	104,341	78,720
Shareholders' Investment		
Common Stock	96,992	96,793
Additional paid-in capital	9,490	5,343
Retained earnings	1,630,020	1,438,043
	1,736,502	1,540,179
	$ 3,799,850	$ 3,594,919

These financial statements should be read in conjunction with information contained on pages 18-21 and 26-29.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)	1984	1983	1982
Funds Provided By Operations			
Net earnings	$259,346	$245,457	$206,716
Depreciation and amortization	157,004	133,753	108,230
Deferred income taxes	14,255	19,830	19,923
	430,605	399,040	334,869
Investment Activities and Distribution to Shareholders			
Expenditures for property and capital leases	357,759	334,547	283,856
Disposals of property and capital leases	(81,856)	(12,072)	(11,660)
Increase in working capital*	162,836	74,291	93,785
Dividends	67,369	60,425	55,422
	506,108	457,191	421,403
Net Financial Requirements	$ 75,503	$ 58,151	$ 86,534
Financing Activities			
Decrease/(increase) in cash and marketable securities	$ 56,959	$ (74,738)	$ (15,771)
Decrease in notes payable	—	—	(98,581)
Current maturities and payments of long-term debt and capital lease obligations	(15,855)	(14,132)	(12,980)
Increase in capital lease obligations	10,482	25,606	11,863
Additions to long-term debt	6,948	106,426	203,043
Other, net	16,969	14,989	(1,040)
Net Financing Provided	$ 75,503	$ 58,151	$ 86,534
***Analysis of Changes in Working Capital:**			
Accounts receivable	$ 41,127	$123,124	$162,684
Merchandise inventories	105,211	213,762	121,874
Other current assets	(2,087)	6,504	(35,910)
Accounts payable	1,371	(163,232)	(83,840)
Accrued liabilities	9,616	(70,177)	(29,314)
Income taxes–payable and current deferred	7,598	(35,690)	(41,709)
Increase in Working Capital	$162,836	$ 74,291	$ 93,785

These financial statements should be read in conjunction with information contained on pages 18-21 and 26-29.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)	Total	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings
Balance January 30, 1982	$1,192,681	$112	$48,004	$ 42,848	$1,101,717
Net earnings	206,716				206,716
Dividends declared:					
Preferred Stock	(61)				(61)
Common Stock	(55,361)				(55,361)
Preferred Stock and stock option activity	4,788	(112)	234	4,666	
Balance January 29, 1983	1,348,763	0	48,238	47,514	1,253,011
Net earnings	245,457				245,457
Dividends declared on Common Stock	(60,425)				(60,425)
Stock option activity	6,384		240	6,144	
Two-for-one stock split	0		48,315	(48,315)	
Balance January 28, 1984	1,540,179	0	96,793	5,343	1,438,043
Net earnings	259,346				259,346
Dividends declared on Common Stock	(67,369)				(67,369)
Stock option activity	4,346		199	4,147	
Balance February 2, 1985	$1,736,502	$ 0	$96,992	$ 9,490	$1,630,020

Preferred Stock
Authorized 200,000 shares, voting, without par value; no shares outstanding at February 2, 1985, and January 28, 1984.

Common Stock
Authorized 160,000,000 shares $1 par value; 96,991,626 shares issued and outstanding at February 2, 1985; 96,793,152 shares issued and outstanding at January 28, 1984.

These financial statements should be read in conjunction with information contained on pages 18-21 and 26-29.

SUMMARY OF ACCOUNTING POLICIES

Consolidation. Our financial statements include the accounts of Dayton Hudson Corporation and subsidiaries after elimination of material intercompany balances and transactions. All subsidiaries are wholly-owned.

Marketable Securities. We record short-term investments at cost, which approximates market.

Sales and Accounts Receivable. Our policy generally is to write off accounts receivable when any portion of the balance is 12 months past due, or when the required payments have not been received for six consecutive months. We base our allowance for doubtful accounts receivable on our past bad debt experience and on the ages of the various accounts.

All customer receivables are classified as current assets, including some which are due after one year. This is consistent practice in the retail industry.

For financial reporting, we recognize the gross profit on retail installment sales when the sales are recorded. For income tax purposes, we use the installment method of reporting profit on these sales.

Inventories. Inventories and the related cost of sales are accounted for by the retail inventory method using the last-in, first-out (LIFO) basis.

Property and Equipment. Property and equipment is recorded at cost less accumulated depreciation. For financial reporting, we compute depreciation on our property using the straight-line method over estimated useful lives. For tax purposes, we use accelerated depreciation or the accelerated cost recovery system (ACRS).

Investment Tax Credit. The investment tax credit reduces income taxes in the year we begin using the related property.

Per-Share Data. To compute consolidated net earnings per share we divide net earnings by the weighted average number of common shares outstanding. Performance shares and the exercise of stock options and appreciation rights would not materially dilute earnings per share.

Fiscal Year. Our fiscal year ends on the Saturday nearest January 31:

Fiscal Year	Ended	Weeks
1984	February 2, 1985	53
1983	January 28, 1984	52
1982	January 29, 1983	52

Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

Reclassification of Accounts. In 1978, we announced plans to dispose of our real estate business. From 1978 through 1983, we reported the disposition of this business as discontinued operations. Because virtually all of these assets have been sold and all related costs incurred, discontinued operations have been combined with our retail business. Various reclassifications have been made to the previously reported 1983 and 1982 amounts to conform with our 1984 presentation.

DEBT AND LEASES

(Thousands of Dollars)

As shown on page 16, our capital structure at the end of 1984 included $1,134,600 of debt and debt equivalents (capital and operating leases). This section provides more information on the components of our capital structure.

Lines of Credit

We had no commercial paper or short-term notes payable outstanding at February 2, 1985. During the year, the average amount of commercial paper outstanding was $98,564, at a weighted average interest rate of 10.6%. We maintained $72,500 of unsecured lines of credit with 12 banks. Borrowings under these lines are at the prime interest rate or at other rates agreed upon at the time of the borrowings. We compensate the banks for the lines of credit through the payment of fees. During 1984, our line agreements required us to pay fees of $247. We were not required to maintain any compensating balances under any of the agreements during 1984.

At year-end, we also had additional credit available in the form of two annually renewable, three-year revolving-credit agreements: one for $185,000 with twelve lending institutions, and one for $65,000 with four lending institutions. We pay a fee for this availability and have the option of borrowing at the prime rate or other negotiated rates. During 1984, we paid fees of $655 under our revolving-credit agreements. Any balance outstanding under the agreements at the end of the three-year period may be converted at our option into a four-year term loan. There were no balances outstanding at February 2, 1985.

Long-Term Debt

Long-term debt decreased slightly during 1984. At year-end, long-term debt due beyond one year was:

	Feb. 2, 1985	Jan. 28, 1984
Sinking fund debentures	**$409,964**	$412,530
Sinking fund notes	**45,000**	48,200
Other unsecured notes—maturing at various dates to 2005 and bearing interest from 6% to 15¼%	**139,468**	133,213
Mortgage notes—notes and contracts for purchase of real estate, maturing at various dates to 2011 and bearing interest from 6½% to 14%	**31,010**	32,881
Total	**$625,442**	$626,824

Principal payments on this long-term debt over the next five years will be $5,621 in 1985, $5,627 in 1986, $6,074 in 1987, $11,072 in 1988 and $11,124 in 1989.

Sinking Fund Debentures. We have four major sinking fund debenture issues outstanding, each in the amount of $100,000. These issues include the 14¾% of June 1982, the 10⅞% of May 1980, the 11⅞% of October 1982 and the 10¾% of May 1983. Annual retirements for the four issues are $4,000 beginning in 1988, $6,650 beginning in 1991, $5,000 beginning in 1993 and $5,000 beginning in 1994, respectively. Two other issues of sinking fund debentures also were outstanding at February 2, 1985: $4,587 at 7¾% and $5,377 at 9¾%. These debentures are redeemable through minimum annual sinking fund payments of $1,250 each, which may be reduced by repurchases of the debentures.

Sinking Fund Notes. The balance of $45,000 at February 2, 1985, represents borrowings under a private placement agreement at an interest rate of 8⅝%. Annual principal repayments of $3,200 will continue through 1999.

Other Unsecured Notes. In November 1981, we issued $100,000 of 15¼% notes due 1991. These notes are prepayable at par any time after November 15, 1986. Also included in Other Unsecured Notes are several industrial development revenue bond issuances from 1980 through 1984 totaling $31,400 and maturing at various dates to 2005. Various other unsecured obligations of varying maturities make up the balance of this category.

Covenants and Collateral. In most of our long-term debt agreements, as well as the revolving credit agreements, we have agreed to observe certain covenants at the request of the lenders. Among these are provisions relating to working capital, funded debt, dividends and secured debt. Under the most restrictive of these provisions, $845,955 of our retained earnings at the end of 1984 was available for dividends and other types of restricted payments.

As a condition of borrowing under our mortgage notes and contracts, we have pledged related land, buildings and equipment as collateral. At year-end, approximately $44,000 of our property and equipment served as collateral for these loans.

Leases

For financial reporting, we classify leases as either operating or capital leases. Capital leases are recorded as assets on our Statements of Financial Position and we report interest and depreciation expense on the leases instead of rent expense. Operating leases are not capitalized and lease rentals are expensed. For tax purposes, we deduct rent expense on all leases.

We own the majority of our Target and department stores. For those Target stores that are leased, the majority are under capital lease agreements. The majority of our Mervyn's stores are leased under operating lease agreements, although we own most of the stores that have been opened since 1978. Virtually all of our specialty merchandising stores are leased under operating lease agreements. Many of our longer-term leases include options to renew, with renewal terms varying from five to 30 years. Certain leases also include options to purchase the property. In addition, we have capital leases on equipment with remaining terms ranging from one to five years.

The detail of leased property and equipment which we have capitalized in our Statements of Financial Position is:

	Feb. 2, 1985	Jan. 28, 1984
Land and buildings	**$146,754**	$153,334
Equipment	**19,182**	18,973
Accumulated depreciation	**(51,203)**	(56,531)
Total	**$114,733**	$115,776

If we were to capitalize the minimum lease payments for all of our operating leases with initial terms of over one year, the present value of these payments would be approximately $373,631 at February 2, 1985, and $373,031 at January 28, 1984. These present values were calculated using an average interest rate for the year of inception. The average interest rate used was 13.2% for 1984 and 12.1% for 1983.

The impact of recording depreciation and interest expense rather than rent expense on the capital leases has been to decrease our net earnings by $1,672 in 1984, $1,501 in 1983 and $1,208 in 1982. Capital lease depreciation expense was $8,144 in 1984, $7,736 in 1983 and $7,875 in 1982.

Many of our store leases entitle the lessor to receive additional rent if sales of the leased stores exceed certain stipulated amounts. The additional rents are referred to as percentage rents because they are usually based on a percentage of sales over stated levels. Real estate taxes, insurance and other executory costs may be included in our rental payment or charged in addition to rent. In either case, we have included these expenses in Occupancy Costs in our Results of Operations.

Composition of Rental Expense	1984	1983	1982
Minimum rents on long-term operating leases	**$ 71,311**	$66,319	$52,078
Short-term rentals	**12,044**	13,844	13,039
Percentage rents:			
Operating leases	**20,157**	18,158	15,764
Capital leases	**1,523**	1,565	1,427
Sublease income	**(527)**	(1,828)	(1,609)
Executory costs	**(1,604)**	(1,465)	(2,446)
Net expense	**$102,904**	$96,593	$78,253

Future minimum lease payments which must be made under noncancellable lease agreements existing at the end of 1984 are:

	Operating Leases	Capital Leases
1985	$ 69,488	$ 21,276
1986	65,782	20,980
1987	61,993	19,958
1988	58,974	18,717
1989	56,280	18,179
After 1989	405,201	258,223
Total minimum lease payments (a)	$717,718	357,333
Less: Interest		214,382
Executory costs		13,019
Capitalized lease obligations, including current portion of $4,735		$129,932

(a) Minimum rental payments have not been reduced by minimum sublease rentals due in the future under noncancellable subleases ($3,706 for operating leases, $14,938 for capital leases).

Commitments and Contingencies

Commitments for the purchase of real estate, construction of new facilities and remodeling amounted to approximately $91,000 at February 2, 1985. We had additional commitments of $51,000 for equipment purchases.

Our contingent liability for mortgage debt on certain office properties sold in 1976 and certain shopping centers sold in 1978 was approximately $42,000 at February 2, 1985. The purchasers have agreed to indemnify us for any costs we might incur in relation to the mortgages.

The nature and scope of our business brings our properties, operations and representatives into regular contact with the general public and a variety of business and governmental entities. This contact subjects us to exposure to claims and litigation arising out of the ordinary course of business. Considering the insurance coverage in place for a portion of the claims and litigation, and noting that the ultimate consequences of claims and litigation cannot be predicted with certainty, our management and legal counsel believe that these matters will not have a material adverse effect on our operations or financial condition.

(Thousands of Dollars, Except Per-Share Data)

Pension Plans

We have three pension plans, which cover all employees who meet certain requirements of age, length of service and hours worked per year. The benefits that they will receive from the plans are defined by the respective plan agreements.

Contributions to the pension plans, which are made solely by the Corporation, are determined by an outside actuarial firm. To compute pension expense, our actuarial firm estimates the total benefits that will ultimately be paid to eligible employees and then allocates these costs to future periods.

In 1984, we increased our rate of return assumption from 7% to 7½%, to better reflect our expected return in the future. Our 1984 contribution was $95 and expense was $7,364, $2,660 less than it would have been under the prior rate of return assumption. Our contribution for 1983 was $7,390 and expense was $11,155. In 1982, our contribution and expense was $13,857.

In 1983, we adopted the unit credit actuarial method to determine the contributions to our pension plans and the amounts of pension expense. Previously, we had used the frozen initial liability method. The change to the unit credit method results in a more appropriate level of funding considering the excess of pension assets over accumulated benefits.

The benefits shown in the following statement are the present values of the total benefits which our employees had earned as of the end of the calendar year. In calculating these present values, our actuarial firm assumed a rate of return of 7½% in 1984 and 7% in 1983.

Excess of Pension Plan Assets over Accumulated Benefits	December 31, 1984	1983
Equity securities	**$ 70,566**	$108,176
Fixed income securities	**132,499**	95,908
Insurance contracts	**14,095**	13,625
Contribution receivable	**95**	3,866
Total assets at market (cost: 1984—$217,546; 1983—$216,407)	**217,255**	221,575
Accumulated benefits		
Vested	**174,148**	164,935
Nonvested	**11,231**	12,064
	185,379	176,999
Excess of pension plan assets over accumulated benefits	**$ 31,876**	$ 44,576

Each percentage point change in the assumed rate of return would change the present value of vested and nonvested accumulated benefits by approximately $17,000. If we assumed the rates of return provided by the Pension Benefit Guaranty Corporation, our weighted average rate would be 9% rather than 7½% and the present value of accumulated benefits would be reduced by approximately $26,000 with no change in the value of the Plans' assets. The higher interest rate assumption would thus give us an excess of pension plan assets over accumulated benefits of approximately $58,000.

Post-Retirement Health Care Benefits

In addition to providing pension and other supplemental benefits, we provide certain health care benefits for our retired employees. Employees become eligible for these benefits if they meet minimum age and service requirements, are eligible for retirement benefits and agree to contribute a portion of the cost. We have the right to modify these benefits. Our cost of providing these retiree health care benefits is recognized as expense when claims are paid. For 1984, these costs approximated $1,600.

Supplemental Retirement and Savings Plan

Employees who meet certain eligibility requirements (based primarily on age and length of employment) can join the Supplemental Retirement and Savings Plan. Under the terms of the Plan, we match 50% of all employee contributions, with a maximum match of 2½% of the employee's gross cash compensation. Employees can invest up to 15% of their current gross cash compensation in the Plan, with up to 10% invested on a before-tax basis at their option. Employees are partially vested with respect to the employer matching contributions after they have been in the Plan two years and are fully vested after six years. Their own contributions are always fully vested.

The Corporation contributed $8,917 to the Plan in calendar year 1984, $6,886 in calendar 1983 and $3,968 in calendar 1982.

Assets, Liabilities and Equity of Supplemental Retirement and Savings Plan	December 31, 1984	1983
Investments at market value:		
Dayton Hudson stock fund	**$ 57,393**	$ 46,206
Fixed income fund	**73,310**	53,710
Equity fund	**49,485**	51,651
Total assets	**$180,188**	$151,567
Funds payable for securities, plan withdrawals and expenses	**$ 3,292**	$ 2,019
Plan equity	**176,896**	149,548
Total liabilities and equity	**$180,188**	$151,567

Employee Stock Ownership Plan

Effective January 1, 1982, we established an Employee Stock Ownership Plan to provide employees with an additional opportunity to own shares of our Common Stock. All contributions to the Plan are made by the Corporation. Any cash contributions are used by the Plan's trustee to purchase Dayton Hudson Common Stock. All eligible employees share equally in that year's contribution. The annual contributions are made based upon the applicable tax laws in effect for the year to which the contribution relates. We accrued a contribution of $3,124 for the plan year ended December 31, 1984. Our contribution accrual for the plan year ended December 31, 1983 was $3,156. Our contributions are paid to the Plan the following year.

Assets and Equity of Employee Stock Ownership Plan	December 31, 1984	1983
Cash and cash equivalents	**$ 19**	$ 111
Dayton Hudson Common Stock at market value (cost: 1984—$4,443; 1983—$1,483)	**4,095**	1,245
Contribution receivable	**3,124**	3,156
Total assets and equity	**$ 7,238**	$ 4,512

Stock Options and Performance Shares
We have three stock option plans for key employees. The 1981 Executive Long-Term Incentive Plan is the only plan under which new grants can now be made. New grants can be for stock options, performance shares, or both. The options can be Incentive Stock Options, Non-Qualified Stock Options, or a combination of both. Twelve months after the grant date, 25% of any options granted become exercisable with another 25% after each succeeding 12 months. The options are cumulatively exercisable and expire no later than 10 years after the date of the grant. The performance shares pay cash and stock if certain selected performance goals are met at the end of a four-year period. The 1976 Executive Long-Term Incentive Plan is essentially the same as the 1981 plan except that Incentive Stock Options were not available under the 1976 plan.

An earlier plan, the 1972 Employer's Stock Option Plan, offered stock appreciation rights in conjunction with the stock options granted. At February 2, 1985, outstanding options for 1,700 shares had stock appreciation rights attached.

We record compensation expense on performance shares based on the current market price of our Common Stock and the extent to which the performance goals are being met. We recorded expense of $1,218, $1,808 and $2,262 in 1984, 1983 and 1982, respectively. When employees exercise options, the total option price is credited to Common Stock and additional paid-in capital, and no expense is incurred.

The number of shares of unissued Common Stock reserved for future grants under all the plans was 1,575,841 at the end of 1984 and 1,737,331 at the end of 1983.

Options and Performance Shares Outstanding	Options			
	Number of Shares	Price Per Share	Shares Exer-cisable	Performance Shares (a)
1982				
Outstanding, beginning of year	1,664,634	$ 1.99–$15.08	863,720	222,000
Granted	271,584	17.44– 27.13		
Cancelled	(78,582)	9.32– 17.44		
Exercised	(459,928)	1.99– 14.60		
1983				
Outstanding, beginning of year	1,397,708	1.99– 27.13	679,116	206,152
Granted	285,380	33.88– 37.34		
Cancelled	(29,621)	9.97– 33.88		
Exercised	(348,642)	2.61– 17.44		
1984				
Outstanding, beginning of year	1,304,825	1.99– 37.34	611,913	177,682
Granted	214,451	32.63– 36.13		
Cancelled	(83,015)	12.36– 36.44		
Exercised	(198,096)	1.99– 35.94		
Outstanding, end of year	1,238,165	$ 1.99–$37.34	689,192	134,109

(a) Excludes performance shares issued in conjunction with options.

Board of Directors and Shareholders
Dayton Hudson Corporation
Minneapolis, Minnesota

We have examined the consolidated statements of financial position of Dayton Hudson Corporation and subsidiaries as of February 2, 1985 and January 28, 1984, and the related consolidated statements of results of operations, changes in financial position and shareholders' investment for each of the three years in the period ended February 2, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Dayton Hudson Corporation and subsidiaries at February 2, 1985 and January 28, 1984, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended February 2, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Minneapolis, Minnesota
March 22, 1985

REPORT OF MANAGEMENT

Responsibility for Financial Statements and Accounting Controls
The financial statements and other information presented in this report have been prepared in accordance with generally accepted accounting principles. Management is responsible for the consistency, integrity and presentation of the information in the Annual Report, which necessarily includes some amounts based upon our judgments and best estimates.

To discharge this responsibility, we maintain a comprehensive system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefit derived. After judging the cost and benefit factors, we believe our system of internal controls provides this reasonable assurance.

The Audit Committee of the Board of Directors, consisting of six outside directors, recommends independent auditors for appointment by the Board, and reviews their proposed services and their reports. The Committee also reviews the internal audit plan and their audit results. Our independent auditors, Ernst & Whinney, our internal auditors and our corporate controller have full and free access to the Audit Committee, and meet with it periodically, with and without the presence of management. The results of the auditors' examinations and their opinions on the adequacy of our internal controls and the quality of our financial reporting are regularly reviewed by the Committee.

Our financial statements have been examined by Ernst & Whinney, whose report appears above. Their report expresses an opinion as to the fair presentation of the financial statements and is based on an independent examination made in accordance with generally accepted auditing standards.

Kenneth A. Macke

Kenneth A. Macke
Chairman of the Board and Chief Executive Officer

INFLATION INFORMATION (Unaudited)

(Thousands of Dollars, Except Per-Share Data)
(Information for 1983 and 1982 has been reclassified to reflect the combination of discontinued operations with retail results. Information for 1981 and 1980 reflects continuing operations only.)

Responding to the Impact of Inflation

The slowing of the high inflationary trends of the 1970s and early 1980s continued during 1984. We continue, however, to recognize the need for real, or inflation-adjusted, return on investment measures when determining our business mix and have allocated capital resources to those companies with the most potential for real growth.

We are using productivity measures in our operations to monitor real productivity, uninfluenced by inflation. Examples include measures of items ticketed, invoices processed and cartons handled per hour. Because of the competitiveness of retailing, expenses tend to rise faster than retail prices. Improved control of operating expenses enabled us to maintain a constant overall operating expense rate in 1980 and 1981, and to lower the rate in each of the past three years.

Inflation's Effect on Financial Reporting

Traditional financial statements prepared on a historical cost basis do not reflect inflation's impact on our financial performance or position. Historical measures tend to overstate earnings performance and understate the current cost to replace assets. While the rate of inflation has eased, the historical cost financial statements include the cumulative effects of both high and low inflation over the years. We believe, however, that inflation's impact on our financial statements is less than many companies due to the high percentage of our assets acquired during the recent inflationary periods, and the fact that the retail industry is less capital intensive than most other industries.

We have compensated for the effects of inflation in some aspects of our financial reporting. We use the last-in, first-out (LIFO) inventory accounting method for reporting purposes. We believe LIFO provides a better matching of current costs with revenues, than does the first-in, first-out (FIFO) method. Consequently, our historical financial statements already provide in real terms a cost to replace the capital invested in inventories each year.

The following supplementary disclosures have been prepared in accordance with Statement on Financial Accounting Standards (SFAS) No. 33, as amended.

Our inflation-adjusted earnings include additional depreciation expense to reflect in real terms the cost of replacing our current store facilities. We have calculated this expense not only for capital leases, but for all operating leases as well.

We are encouraged, as well as challenged, by the results of the adjustments for inflation as shown in the table below.

Management's Inflation-Adjusted Information

(Millions of Dollars, Except Per-Share Data)

	1984	1983	1982	1981	1980
Revenues					
As reported	$8,009	$6,963	$5,661	$4,943	$4,034
Adjusted for inflation (BLS)*	$8,009	$7,094	$5,923	$5,365	$4,616
Earnings					
Pretax earnings before inflation adjustments	$ 478	$ 474	$ 386	$ 307	$ 283
Cost to maintain inventories (LIFO)	1	(23)	(1)	(19)	(33)
Pretax earnings as reported	479	451	385	288	250
Cost to maintain store locations and other owned and leased facilities (additional depreciation)	(70)	(70)	(57)	(50)	(37)
Income taxes as reported	(220)	(205)	(178)	(128)	(112)
Net, adjusted for inflation (current cost)	189	176	150	110	101
Dividends declared	(67)	(60)	(55)	(50)	(45)
Retained after dividends	$ 122	$ 116	$ 95	$ 60	$ 56
Earnings Per Share					
As reported	$ 2.68	$ 2.54	$ 2.15	$ 1.67	$ 1.45
Cost to maintain store locations and other owned and leased facilities (additional depreciation)	(.72)	(.72)	(.60)	(.53)	(.38)
Adjusted for inflation (current cost)	1.96	1.82	1.55	1.14	1.07
Dividends declared	(.70)	(.63)	(.58)	(.52)	(.48)
Retained for future growth	$ 1.26	$ 1.19	$ .97	$ .62	$ .59
Ratios					
Inflation-adjusted earnings as a percent of historical	73%	72%	72%	69%	73%
Dividends declared as a percent of prior year inflation-adjusted earnings	38%	41%	50%	50%	49%
Effective tax rates:					
As reported	45.9%	45.5%	46.3%	44.5%	44.8%
Adjusted for inflation (current cost)	53.8%	53.9%	54.4%	53.8%	52.5%
Shareholders' investment (net assets)					
As reported	$1,737	$1,540	$1,349	$1,193	$1,066
After adjusting assets to current cost, in 1984 purchasing power (CPI-U)**	$2,307	$2,280	$2,094	$1,939	$1,835
Dividends declared per common share					
As reported	$ .70	$ .63	$ .58	$ .52	$ .48
In 1984 purchasing power (CPI-U)	$ .70	$ .66	$ .62	$ .59	$ .60
Market price of Common Stock at year end					
As quoted	$35.88	$29.68	$27.25	$14.44	$11.19
In 1984 purchasing power (CPI-U)	$35.42	$30.56	$29.02	$15.95	$13.41
Inflation indices					
Average CPI-U (1967 = 100)	312.1	299.4	290.0	274.2	249.1
Average of BLS rate (1973 = 100)	162.7	159.7	155.5	149.9	142.2

*Bureau of Labor Statistics
**Consumer Price Index-Urban

- When we adjust our reported five-year revenue growth rate of 19% by the BLS index, our growth, excluding inflation's impact, is 14%—clearly a strong record.
- After adjusting our net earnings for the additional cost of maintaining owned and leased facilities, we continue to retain profits on a real basis. We have done so for each year the data has been calculated.
- Our dividend payout ratio also indicates that on a real basis we are returning earnings to our shareholders rather than capital.
- Our 1984 retained net earnings as a percent of inflation-adjusted equity was 5%. We continue to show real growth in equity.
- Shareholders' investment, when adjusted for the current cost of our inventories and owned and capitalized leased assets, more accurately reflects the worth of our investment. The worth of our investment increases to $2.3 billion, compared with $1.7 billion as shown in our financial statements on page 23.

Return on Investment—Current Cost	1984	1983
Net earnings before cost to maintain inventories	$ 258,735	$ 257,891
Cost to maintain inventories (LIFO)	611	(12,434)
Net earnings as reported	259,346	245,457
Cost to maintain assets (additional depreciation)		
Owned assets	(57,902)	(56,606)
Leased assets		
Capital	(4,095)	(5,094)
Operating	(8,229)	(8,161)
Net earnings, current cost	189,120	175,596
Interest expense	49,700	41,600
Interest equivalent in leases	22,600	20,800
Net earnings, current cost, before financing costs	$ 261,420	$ 237,996
Working capital	$1,037,365	$ 865,523
Net property and equipment	1,828,718	1,630,643
Other assets	14,707	12,491
Capital leases	187,275	147,397
Operating leases	616,622	597,030
Total investment at beginning of year, current cost	$3,684,687	$3,253,084
Return on investment	7.1%	7.3%

Our current-cost earnings in 1984 purchasing power (CPI-U) are:

	1984	1983	1982	1981	1980
Net earnings—continuing operations	$186,718	$179,564	$158,780	$121,387	$121,471
Earnings per share	$ 1.93	$ 1.86	$ 1.65	$ 1.27	$ 1.27

Shareholders' Investment and Capitalization

The value of shareholders' investment on a current-cost basis is higher than shown in our financial statements on page 23, as a result of inflation's impact on inventories and net property and equipment. Total capitalization also increases due to inflation's impact on operating leases.

	1984	1983	1982
Shareholders' investment as reported	$1,736,502	$1,540,179	$1,348,763
Adjustment for inventories	149,408	160,136	137,323
Adjustment for owned and capitalized leased assets	451,077	529,607	480,919
Shareholders' investment, current cost	2,336,987	2,229,922	1,967,005
Adjustment for operating leases	155,866	140,189	147,871
Capitalized value of operating leases	490,730	476,433	449,159
Long-term debt, notes payable, deferred items and capitalized leases	865,336	838,143	689,049
Total capitalization, current cost	$3,848,859	$3,684,687	$3,253,084

Historical inventories, which are valued under the LIFO method, have been adjusted to approximate current replacement cost by adding back the cumulative LIFO provisions.

Adjustments for Inventories	LIFO Inventory	Accumulated LIFO Provision	FIFO Inventory
1984			
Target	$ 490,971	$ 33,767	$ 524,738
Mervyn's	270,026	47,474	317,500
Department stores	171,602	47,359	218,961
Specialty merchandisers	171,323	20,808	192,131
Total	$1,103,922	$149,408	$1,253,330
1983			
Target	$ 448,050	$ 40,111	$ 488,161
Mervyn's	251,450	36,012	287,462
Department stores	155,877	62,552	218,429
Specialty merchandisers	143,334	21,461	164,795
Total	$ 998,711	$160,136	$1,158,847

Net property and equipment values are also higher because the costs to replace them are greater today than when they were purchased. Current costs of property and equipment were determined using indices based on annual changes in the cost of constructing or purchasing new assets. The adjustment for owned and leased assets is $606,883 at February 2, 1985, and $669,796 at January 28, 1984.

Holding and Monetary Gains

Holding gains occur when the worth of our assets as measured by the current cost method rises faster than the loss of purchasing power in the dollars needed to replace them, as measured by the CPI-U.

In 1984, the current cost of our inventories decreased $1,129 and our property and equipment, including all leased assets, increased $76,463 due to specific price rises. General inflation accounted for $132,242 of this increase, resulting in a holding loss of $56,908.

Monetary assets, such as accounts receivable, lose purchasing power during an inflationary period because the dollars they represent purchase fewer goods and services upon realization. Monetary liabilities gain because less purchasing power is required to pay off the obligations.

Neither holding nor monetary gains are included in inflation-adjusted earnings.

(In Average 1984 Dollars)	1984	1983	1982	1981	1980
Holding gains (losses) net of general inflation	$(56,908)	$13,160	$21,782	$11,367	$(138,747)
Net monetary gains	$ 31,197	$32,240	$24,408	$45,749	$ 47,424

The inflation-adjusted data represent reasonable approximations of the price changes in our business during the periods under review. They do not represent specific measurements of the assets and expenses involved.

No adjustments to income tax expense were made in computing the inflation-adjusted information, in accordance with current accounting requirements. As a result, the effective tax rate for 1984 increased from 45.9% on a historical basis to 53.8% on a current-cost basis.

FINANCIAL COMPARISONS
Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars, Except Per-Share Data)	1984 (a)	1983	1982	1981
Revenues	**$8,009.0**	6,963.3	5,660.7	4,942.9
Cost of retail sales, buying and occupancy	**$5,709.5**	4,924.9	3,957.9	3,482.0
Selling, publicity and administrative	**$1,310.0**	1,160.5	971.8	883.8
Depreciation	**$ 148.5**	125.5	100.2	84.1
Interest expense (income), net	**$ 81.5**	71.4	54.1	36.6
Interest and depreciation on capital leases	**$ 24.3**	22.4	18.6	18.5
Earnings Before Income Taxes	**$ 479.3**	450.7	384.8	287.5
Income Taxes	**$ 220.0**	205.2	178.1	128.0
Net Earnings				
Continuing	**$ 259.3**	245.5	206.7	159.5
Discontinued	**$ —**	—	—	13.9
Consolidated	**$ 259.3**	245.5	206.7	173.4
Per Common Share				
Net earnings				
Continuing	**$ 2.68**	2.54	2.15	1.67
Discontinued	**$ —**	—	—	.14
Consolidated	**$ 2.68**	2.54	2.15	1.81
Cash dividend declared	**$ .695**	.625	.575	.525
Shareholders' Investment	**$ 17.90**	15.91	13.98	12.41
Return on Beginning Equity (Shareholders' Investment)				
Continuing	**16.8%**	18.2	17.3	15.0
Consolidated	**16.8%**	18.2	17.3	16.3
Capital Expenditures	**$ 357.8**	334.6	283.9	253.7
Consolidated Year-End Financial Position				
Working capital	**$ 972.8**	868.6	718.3	508.9
Property and equipment, net	**$1,491.0**	1,370.6	1,199.2	1,031.7
Property under capital leases, net	**$ 114.7**	115.8	97.9	93.9
Total assets	**$3,799.9**	3,594.9	2,985.3	2,555.2
Long-term capital lease obligations	**$ 125.2**	123.9	102.4	96.3
Long-term debt	**$ 625.4**	626.8	529.3	331.8
Shareholders' investment	**$1,736.5**	1,540.2	1,348.8	1,192.7
Average Common Shares Outstanding (Thousands)	**96,892**	96,601	96,220	95,788

The Financial Comparisons should be read in conjunction with the Financial Statements. Per-share amounts and shares outstanding for 1982 and earlier have been restated to reflect a two-for-one Common Stock split effective July 22, 1983. The 1983 and 1982 information has been reclassified to reflect the combination of discontinued operations with retail results.

(a) Consisted of 53 weeks.

1980	1979	1978(a)	1977	1976	1975	1974
4,033.5	3,384.8	2,961.9	2,494.7	2,125.8	1,852.2	1,609.3
2,844.1	2,353.4	2,055.4	1,731.6	1,480.1	1,285.2	1,148.1
734.3	626.6	539.5	441.5	377.8	336.6	298.3
59.5	43.7	34.4	31.2	26.8	24.2	22.9
5.2	(1.1)	8.2	9.9	8.9	9.0	14.7
16.6	13.4	12.0	10.4	8.7	7.8	6.7
250.3	240.7	198.9	187.2	153.9	126.3	59.6
112.1	114.2	101.3	95.5	79.4	65.6	29.6
138.2	126.5	97.6	91.7	74.5	60.7	30.0
8.5	65.6	167.3	6.2	2.5	(.1)	(.4)
146.7	192.1	264.9	97.9	77.0	60.6	29.6
1.45	1.34	1.03	.98	.80	.66	.33
.09	.69	1.77	.06	.02	—	—
1.54	2.03	2.80	1.04	.82	.66	.33
.475	.425	.375	.325	.26	.18	.15
11.14	10.09	8.50	6.10	5.28	4.63	4.14
14.4	15.6	16.8	18.4	17.1	16.0	8.4
15.2	23.8	45.7	19.6	17.7	16.0	8.3
265.2	218.2	156.1	104.9	76.1	33.4	48.7
381.3	438.8	427.6	309.4	288.2	266.2	239.2
872.2	629.8	472.2	379.7	317.2	280.0	274.3
100.4	67.2	70.9	57.0	52.2	46.7	48.4
2,155.2	1,793.2	1,637.5	1,411.4	1,213.1	1,083.2	954.9
103.3	73.0	76.8	62.0	56.6	50.6	51.5
213.8	117.6	94.3	116.8	111.7	123.8	147.2
1,066.4	962.6	808.4	579.8	499.2	435.9	378.6
95,212	94,764	94,388	94,000	93,300	91,788	89,876

STORES AND LOCATIONS

Target	No. of Stores	Retail Sq. Ft. (000)
Arizona		
Phoenix	5	510
Tucson	2	209
Arkansas		
Little Rock	3	289
California		
Los Angeles	21	2,174
San Diego	8	833
Colorado		
Colorado Springs	2	229
Denver	11	1,133
Ft. Collins	1	100
Grand Junction	1	101
Greeley	1	83
Illinois		
Bloomington/Normal	1	101
Champaign	1	83
Danville	1	86
Moline	1	81
Mt. Carmel	1	58
Indiana		
Anderson	1	93
Bloomington	1	82
Carmel	1	81
Clarksville	1	86
Columbus	1	83
Crawfordsville	1	62
Evansville	2	178
Fort Wayne	3	266
Huntington	1	60
Indianapolis	9	764
Kokomo	1	86
Lafayette	1	79
Muncie	1	84
New Albany	1	84
Richmond	1	78
Shelbyville	1	60
South Bend	3	262
Iowa		
Ames	1	67
Bettendorf	1	80
Cedar Rapids	2	181
Clinton	1	61
Des Moines	3	326
Dubuque	1	80
Ft. Dodge	1	67
Mason City	1	50
Ottumwa	1	52
Sioux City	1	100
Waterloo	1	101
Kansas		
Wichita	2	200
Kentucky		
Louisville	5	427
Louisiana		
Alexandria	1	101
Lafayette	1	101
Minnesota		
Duluth	1	125
Minneapolis/St. Paul	16	1,729
Rochester	1	101
Missouri		
St. Louis	10	1,030
Montana		
Billings	1	101
Nebraska		
Lincoln	1	101
Omaha	3	305
North Dakota		
Bismarck	1	80
Fargo	1	100
Grand Forks	1	100
Minot	1	80
Ohio		
Middletown	1	79
Oklahoma		
Oklahoma City	5	495
Tulsa	2	206
South Dakota		
Rapid City	1	101
Sioux Falls	1	100
Tennessee		
Knoxville	2	182
Memphis	4	401
Nashville	3	303
Texas		
Austin	2	202
Beaumont	1	101
Dallas/Ft. Worth	11	1,214
Houston	14	1,496
Lubbock	1	101
San Antonio	6	565
Tyler	1	81
Waco	1	101
Wichita Falls	1	100
Wisconsin		
Milwaukee	6	657
Racine	1	101
Wyoming		
Casper	1	81
Total Target Stores	215	21,071

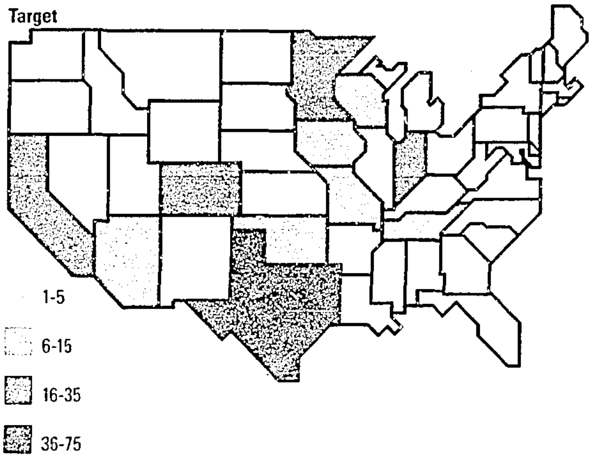
Mervyn's	No. of Stores	Retail Sq. Ft. (000)
Arizona		
Phoenix	6	493
Tucson	3	244
Yuma	1	76
California		
Bakersfield	1	102
Capitola	1	75
Chico	1	60
El Centro	1	64
Fresno	1	105
Lancaster	1	81
Lodi	1	68
Los Angeles	22	1,729
Marysville	1	67
Merced	1	65
Modesto	1	67
Monterey	1	83
Oceanside	1	75
Redding	1	61
Redlands	1	76
Riverside	1	77
Roseville	1	76
Sacramento	4	278
Salinas	1	60
San Bernadino	1	87
San Diego	5	413
San Francisco Bay Area	17	1,277
San Jose	6	501
San Luis Obispo	1	60
Santa Rosa	1	90
Stockton	1	81
Ventura	1	74
Visalia	1	60
Colorado		
Grand Junction	1	75
Nevada		
Carson City	1	60
Las Vegas	2	159
Reno/Sparks	2	127
New Mexico		
Albuquerque	1	118
Oregon		
Portland	3	278
Texas		
Amarillo	1	76
Austin	2	162
Dallas	6	460
El Paso	2	158
Houston	8	651
Utah		
Ogden	1	83
Orem	1	93
Salt Lake City	4	354
Washington		
Seattle/Tacoma	2	245
Vancouver	1	83
Yakima	1	82
Total Mervyn's Stores	126	9,989

Dayton Hudson Department Store Company	No. of Stores	Retail Sq. Ft. (000)
Hudson's		
Detroit, MI	8	2,780
Ann Arbor, MI	1	187
Battle Creek, MI	1	103
Flint, MI	1	272
Grand Rapids, MI	1	124
Kalamazoo, MI	1	124
Lansing, MI	2	206
Pontiac, MI	1	289
Saginaw, MI	1	124
Fort Wayne, IN	1	122
South Bend, IN	1	123
Toledo, OH	1	187
	20	4,641
Dayton's		
Minneapolis/St. Paul, MN		
Department Stores	7	2,388
Home Stores	3	183
Rochester, MN	1	163
St. Cloud, MN	1	99
Fargo, ND	1	117
Grand Forks, ND	1	102
Sioux Falls, SD	1	102
La Crosse, WI	1	101
	16	3,255
Total Dayton Hudson Department Store Company	36	7,896

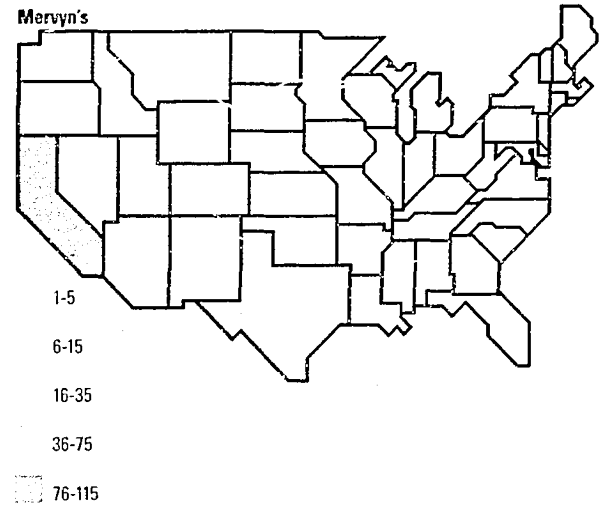
Specialty Merchandisers	No. of Stores	Retail Sq. Ft. (000)
B. Dalton Bookseller		
Northeast	125	477
Southeast	118	391
Midwest	202	652
South Central	107	345
Northwest	41	142
Southwest	134	507
Puerto Rico	2	6
	729	2,520
Pickwick Discount Books		
Columbus, OH	5	14
Denver, CO	7	20
Minneapolis/St. Paul, MN	10	33
	22	67
Lechmere		
Boston, MA	5	673
Springfield, MA	1	126
Manchester, NH	1	82
Providence, RI	1	90
	8	971
Total Specialty Merchandisers	759	3,558
Total All Stores	1,136	42,514

TOTAL STORES AT FISCAL YEAR-END

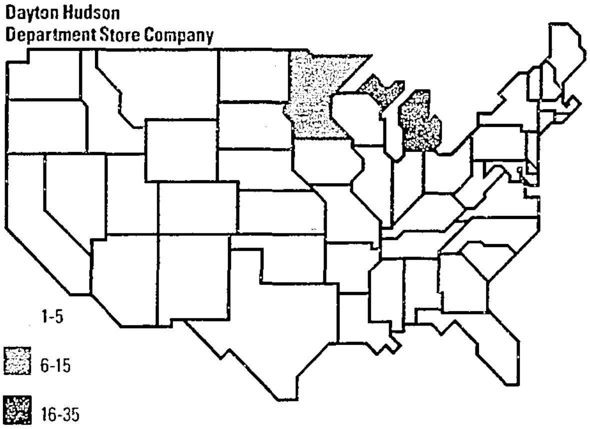
Target



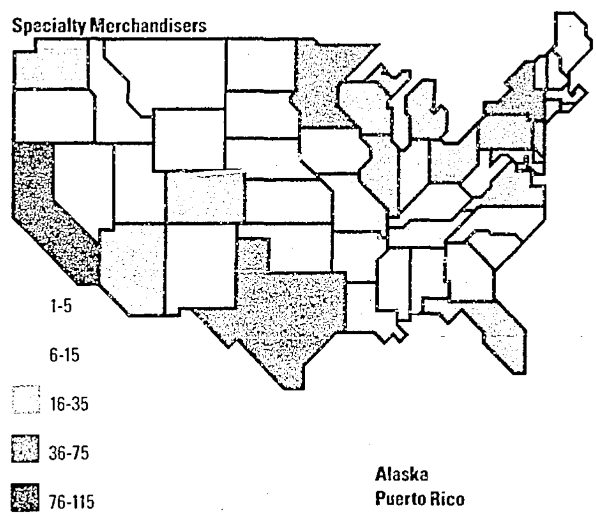
Mervyn's



Dayton Hudson
Department Store Company



Specialty Merchandisers



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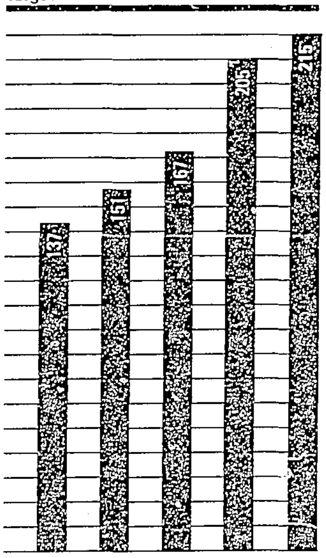
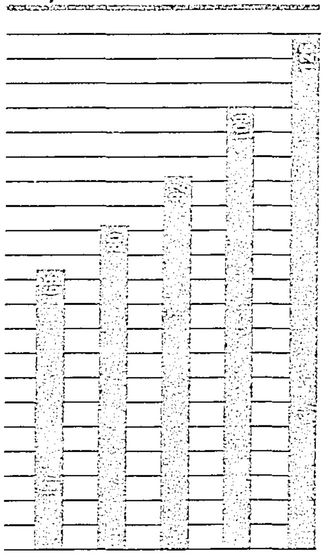
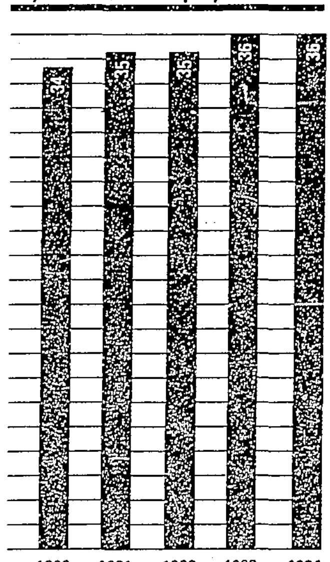


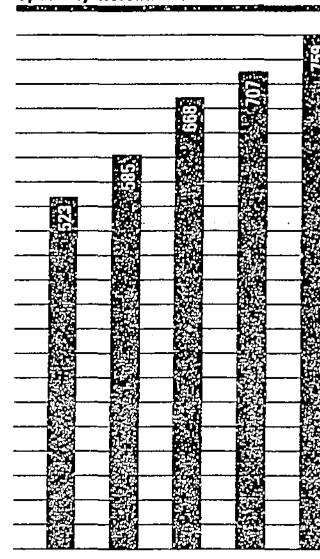
Mervyn's



Dayton Hudson
Department Store Company



Specialty Merchandisers*



*Totals for 1980 and 1981 exclude Dayton Hudson Jewelers.

DIRECTORS AND MANAGEMENT

Directors
William A. Andres,
Chairman,
Executive Committee(1)

Rand V. Araskog,
Chairman of the Board and Chief Executive Officer, ITT Corporation (diversified multinational company)(1)(2)(3)

Robert A. Burnett,
President and Chief Executive Officer, Meredith Corporation (media company engaged in printing, publishing, broadcasting and real estate)(1)(2)(4)

Gerald R. Gallagher,
Vice Chairman and Chief Administrative Officer

E. Peter Gillette, Jr.,
Vice Chairman, Norwest Corporation (diversified financial services company)(1)(2)(4)

Roger L. Hale,
President and Chief Executive Officer, Tennant Company (industrial equipment manufacturer)(1)(3)

Donald J. Hall,
Chairman of the Board and Chief Executive Officer, Hallmark Cards, Incorporated (greeting card manufacturer)(1)(2)

Howard H. Kehrl,
Vice Chairman, General Motors Corporation (manufacturer of transportation equipment)(1)(2)(3)

Kenneth A. Macke,
Chairman of the Board and Chief Executive Officer(1)

Bruce K. MacLaury,
President, The Brookings Institution (research and education organization)(1)(3)

David T. McLaughlin,
President, Dartmouth College(1)(4)

Boake A. Sells,
President

William H. Spoor,
Chairman of the Board and Chief Executive Officer, The Pillsbury Company (diversified food producer)(1)(4)

Alva O. Way
Former President, The Travelers Corporation (insurance and financial services company)(1)(2)

Shirley Young,
President, Grey Strategic Marketing, Inc. (subsidiary of Grey Advertising, Inc., national advertising agency)(1)(3)(4)

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Corporate Responsibility Committee

Officers
Kenneth A. Macke,
Chairman of the Board and Chief Executive Officer

Boake A. Sells,
President

Gerald R. Gallagher,
Vice Chairman and Chief Administrative Officer

William A. Andres,
Chairman, Executive Committee

P. Gerald Mills,
Executive Vice President

James T. Hale,
Senior Vice President and Secretary

Reid Johnson,
Senior Vice President

John F. Kilmartin,
Senior Vice President

Willard C. Shull, III,
Senior Vice President

Edwin H. Wingate,
Senior Vice President

Ann H. Barkelew,
Vice President

David W. Beckley,
Vice President

Larry E. Carlson,
Vice President

Peter Corcoran,
Vice President

Karol D. Emmerich,
Vice President and Treasurer

Thomas M. Etzkorn,
Vice President

L. Fred Hamacher,
Vice President

William E. Harder,
Vice President and Assistant Secretary

Peter Hutchinson,
Vice President

Harry N. Jackson,
Vice President

William P. Hise,
Assistant Secretary

Operating Company Management

Target
Bruce G. Allbright,
Chairman and
Chief Executive Officer

Robert J. Ulrich
President

Mervyn's
John F. Kilmartin,
Chairman and
Chief Executive Officer

Walter T. Rossi,
President

Dayton Hudson Department Store Company
P. Gerald Mills,
Chairman and
Chief Executive Officer

Stephen E. Watson,
President and
Chief Operating Officer

Specialty Merchandisers
B. Dalton Bookseller
Sherman A. Swenson,
Chairman and
Chief Executive Officer

Lechmere
C. George Scala,
Chairman and
Chief Executive Officer

CORPORATE INFORMATION

Corporate Offices
777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone (612) 370-6948

Annual Meeting
The Annual Meeting of Shareholders is scheduled for 10:00 a.m. Wednesday, May 29, 1985, at The Children's Theatre, Minneapolis Institute of Arts, 2400 Third Avenue South, Minneapolis, Minnesota.

Community Involvement
In keeping with its commitment to corporate responsibility, Dayton Hudson annually contributes an amount equal to 5% of its federal taxable income to support its giving programs. For a complete report on 1984 contributions and programs, write to Vice President, Public Affairs.

10-K Report
A copy of the Form 10-K annual report filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended February 2, 1985, is available at no charge to shareholders. Write to Director, Financial Relations.

Shareholder Investment Service
The Shareholder Investment Service is a convenient way for Dayton Hudson shareholders to acquire additional shares of the Corporation's Common Stock through automatic dividend reinvestment and voluntary cash purchase. All holders of Dayton Hudson Common Stock may participate. For more information, write to Director, Financial Relations.

Transfer Agents and Registrars
Norwest Bank Minneapolis, N.A.
Norwest Trust Company, New York

Dividend Agent
Norwest Bank Minneapolis, N.A.

Trustees
First Trust Company of St. Paul
9-3/4% Sinking Fund Debentures due 1995
10-7/8% Sinking Fund Debentures due 2005
15-1/4% Notes due 1991
14-3/4% Sinking Fund Debentures due 2012
11-7/8% Sinking Fund Debentures due 2012
10-3/4% Sinking Fund Debentures due 2013
First National Bank of St. Paul
7-3/4% Sinking Fund Debentures due 1994

Stock Exchange Listings
New York Stock Exchange
Pacific Stock Exchange
(Trading Symbol DH)

Shareholder Assistance
For assistance regarding individual stock records and transactions, contact: Shareholder Relations, Dayton Hudson Corporation, 777 Nicollet Mall, Minneapolis, Minnesota 55402. Telephone (612) 370-6735

DAYTON HUDSON CORPORATION

777 Nicollet Mall
Minneapolis, Minnesota 55402